Calendar No. 1749

84TH CONGRESS, 2d Session | SENATE | REPORT No. 1728

DESIGNATING LOCK AND DAM NO. 17 ON THE BLACK WARRIOR RIVER, ALA., AS THE JOHN HOLLIS BANKHEAD LOCK AND DAM

APRIL 16 (legislative day, APRIL 9), 1956.—Ordered to be printed

Mr. CHAVEZ, from the Committee on Public Works, submitted the following

REPORT

[To accompany S. 2424]

The Committee on Public Works, to whom was referred the bill (S. 2424) to provide that lock and dam No. 17 on the Black Warrior River, Ala., shall hereafter be known and designated as the John Hollis Bankhead lock and dam, having considered the same, report favorably thereon without amendment and recommend that the bill do pass.

The purpose of the bill is to designate lock and dam No. 17 on the Black Warrior River, Ala., as the John Hollis Bankhead lock and dam in honor of the late Senator Bankhead.

The site of lock and dam No. 17 is on the Black Warrior River 379 miles upstream from Mobile, Ala. It was authorized in 1907 and opened to traffic in 1915. The lock has a double lift, the total lift being 72 feet.

Lock and dam No. 17 is the most upstream structure on the Warrior-Tombigbee Rivers navigation system, a unit of the Nation's vast system of inland waterways, and the port of Birmingham is located on the pool created by this lock and dam.

The committee believes it fitting and proper that this lock and dam bear the name of John Hollis Bankhead lock and dam in honor of the great statesman from Alabama who so ably served his State and country in the United States House of Representatives from 1887 to 1907 and in the United States Senate from 1907 to 1920.

Comments of the Federal agencies on this bill are as follows:

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EXECUTIVE OFFICE OF THE PRESIDENT,
BUREAU OF THE BUDGET,
Washington 25, D. C., July 29, 1955.

Hon. DENNIS CHAVEZ,
Chairman, Committee on Public Works,
United States Senate, 412 Senate Office Building,
Washington, D. C.

MY DEAR MR. CHAIRMAN: This is in reply to your letter of July 7, 1955, requesting the views of the Bureau of the Budget on S. 2424, a bill to provide that lock and dam No. 17 on the Black Warrior River, Ala., shall hereafter be known and designated as the John Hollis Bankhead lock and dam.

The purpose of the bill is stated in its title.

The Bureau of the Budget would have no objection to the enactment of this bill.

Sincerely yours,

(Signed) PERCY RAPPAPORT,
Assistant Director.

DEPARTMENT OF THE INTERIOR,
OFFICE OF THE SECRETARY,
Washington, D. C., August 10, 1955.

Hon. DENNIS CHAVEZ,
Chairman, Committee on Public Works,
United States Senate, Washington, D. C.

MY DEAR SENATOR CHAVEZ: A report has been requested from this Department on S. 2424, a bill to provide that lock and dam No. 17 on the Black Warrior River, Ala., shall hereafter be known and designated as the John Hollis Bankhead lock and dam.

The Department of the Interior would have no objection to enactment of S. 2424, the contents of which are described by its title.

The Bureau of the Budget has advised that there would be no objection to the submission of this report to your committee.

Sincerely yours,

(Signed) F. E. WORMSER,
Assistant Secretary of the Interior.

DEPARTMENT OF THE ARMY,
August 12, 1955.

Hon. DENNIS CHAVEZ,
Chairman, Committee on Public Works, United States Senate.

DEAR MR. CHAIRMAN: Reference is made to your request for the views of the Department of the Army with respect to S. 2424, 84th Congress, a bill to provide that lock and dam No. 17 on the Black Warrier River, Ala., shall hereafter be known and designated as the John Hollis Bankhead lock and dam.

The Department of the Army offers no objection to the enactment of the above-mentioned bill.

The purpose of the bill is to designate lock and dam No. 17 on the Black Warrior River, Ala., as the John Hollis Bankhead lock and dam in honor of the late Senator Bankhead.

Since it appears that, under Public Law 242, 80th Congress, the Board on Geographic Names may have an interest in this legislation, it is recommended that the views of the Board be requested.

The Bureau of the Budget advises that there is no objection to the submission of this report.

Sincerely yours.

(Signed) WILBER M. BRUCKER,
Secretary of the Army.

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Calendar No. 1750

84TH CONGRESS, 2d Session | SENATE | REPORT No. 1729

AUTHORIZING THE CHARGING OF TOLLS FOR TRANSIT OVER THE MANETTE BRIDGE IN BREMERTON, WASH.

APRIL 16 (legislative day, APRIL 9), 1956.—Ordered to be printed

Mr. CHAVEZ, from the Committee on Public Works, submitted the following

REPORT

[To accompany S. 2712]

The Committee on Public Works, to whom was referred the bill (S. 2712) to authorize the charging of tolls for transit over the Manette Bridge in Bremerton, Wash., having considered the same, report favorably thereon with an amendment and recommend that the bill, as amended, do pass.

The amendment is as follows:

Page 2, line 20, strike out "Manette Bridge" and insert in lieu thereof the word "bridges".

PURPOSE

The purpose of S. 2712 is to authorize the Washington Toll Bridge Authority, as an agency of the State of Washington, to fix and charge tolls on the existing Manette Bridge across Port Washington Narrows at Bremerton, Wash., notwithstanding any provision to the contrary contained in the act of June 14, 1926 (44 Stat. 744). Tolls would be collected on the Manette Bridge, and not more than one additional bridge hereafter to be constructed by such authority adjacent to the Manette Bridge, to provide a fund sufficient to pay the cost of the maintenance and operation of both such bridges, and provide a sinking fund sufficient to amortize the cost of reconstructing and improving the Manette Bridge and of constructing such additional bridge and the approaches thereto, including interest and financing costs, within a period of not more than 30 years after such reconstruction or construction and improvement is commenced. After amortization, both bridges would be maintained and operated free of tolls.

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STATEMENT

The act of June 14, 1926, authorized the construction, maintenance, and operation of a bridge and approaches thereto, by W. E. Buell, across Port Washington Narrows within the city of Bremerton, Wash., under the provisions of the act of March 23, 1906. Section 2 provides for acquisition of the bridge by public agencies and section 3 provides for its operation as a free bridge or further for the charging of tolls to provide for the maintenance, repair, and operation of the bridge and to provide a sinking fund to amortize the amount paid for the bridge and approaches within a period of 15 years from the date of such acquisition. After the sinking fund is provided the bridge is to be free of tolls or the tolls so adjusted as to provide only for the costs of maintenance, operation, and repair of the bridge.

The Manette Bridge was completed in 1930. At that time there were approximately 800 families living on the Manette Peninsula. Prior to completion of the bridge these people commuted to and from Bremerton by ferry. The bridge has a 2-lane roadway originally designed to carry 6,000 cars per day, but presently carrying approximately 17,000 cars per day.

The State of Washington acquired the Manette Bridge in 1938, and in 1940 it was freed of tolls. It became a part of the State highway system, being on the Federal-aid secondary system, although no Federal-aid highway funds were involved in its construction.

The city of Bremerton has a normal population of about 32,000, exclusive of 6,000 to 10,000 Navy personnel and their families, and there are an additional 30,000 people living in fringe areas outside the city limits. The city of Bremerton, particularly the Manette Peninsula area is still growing and expanding, and many of the 12,000 employees of the Puget Sound Naval Shipyard reside in the East Bremerton area and use the present Manette Bridge in going to and from work.

The existing bridge creates a bottleneck and present traffic conditions on both sides of the bridge are such that excessive congestion and delay occurs during rush hours and at other times during the day. Improvement of the approaches will permit more efficient traffic use of the bridge, but an additional bridge is urgently needed to relieve present congestion and care for future anticipated traffic conditions.

The 1955 session of the Washington State Legislature enacted legislation authorizing agreements between the Department of Highways and the Washington Toll Bridge Authority concerning the reconstruction and improvement of bridges on the State highway systems; authorizing the authority to carry out such work, to construct additional bridges, and to issue revenue bonds in connection therewith; and specifically authorized construction of a toll bridge over the Port Washington Narrows and improvement of the approaches to and the imposition of tolls on the Manette Bridge.

The committee has been advised that the people of the area overwhelmingly favor placing tolls on the existing bridge to help pay for a new 4-lane toll bridge, and that a moderate toll charge will completely pay for the proposed improvements in 10 to 12 years.

The committee believes that the existing narrow two-lane bridge has become entirely inadequate to serve the present population and the needs of the people employed at the Puget Sound Naval Shipyard. An additional bridge appears necessary to relieve the downtown area

of Bremerton of its traffic congestion, create a free flow of traffic from east to west and make the city more accessible to residents of the area north thereof; and for civil defense and rapid evacuation of the residents and Navy yard personnel in case of an attack on the area.

The committee further believes it proper to finance the new bridge and other allied improvements by tolls for use of the new bridge, and reimposition of tolls on the Manette Bridge, and recommends enactment of this legislation.

Comments of the Federal agencies on S. 2712 are as follows:

EXECUTIVE OFFICE OF THE PRESIDENT,
BUREAU OF THE BUDGET,
Washington 25, D. C., October 13, 1955.

Hon. DENNIS CHAVEZ,
Chairman, Committee on Public Works,
United States Senate, Washington 25, D. C.

MY DEAR MR. CHAIRMAN: This is in reply to your letter of August 2, 1955, requesting the views of this office with respect to S. 2712, a bill to authorize the charging of tolls for transit over the Manette Bridge in Bremerton, Wash.

This office would have no objection to the enactment of this measure.

Sincerely yours,

PERCY RAPPAPORT,
Assistant Director.

THE SECRETARY OF COMMERCE,
Washington 25, November 2, 1955.

Hon. DENNIS CHAVEZ,
Chairman, Committee on Public Works,
United States Senate, Washington, D. C.

DEAR MR. CHAIRMAN: This is in reply to your request of August 2, 1955, for the views of this Department concerning S. 2712, a bill to authorize the charging of tolls for transit over the Manette Bridge in Bremerton, Wash.

The bill would authorize the Washington Toll Bridge Authority, an agency of the State of Washington, to fix and charge tolls on a bridge, known as the Manette Bridge, across the Port Washington Narrows within the city of Bremerton, Wash., notwithstanding any provision of the act approved June 14, 1926 (44 Stat. 744), which authorized the construction of said bridge. Tolls on the Manette Bridge would be so adjusted that the amounts collected, together with the amounts collected from tolls on not more than one additional bridge hereafter to be constructed by the authority adjacent to the Manette Brige, would provide (*a*) a fund sufficient to pay the cost of maintenance and operation of both bridges, and (*b*) a sinking fund sufficient to amortize the cost of reconstructing and improving the Manette Bridge and of constructing such additional bridge and approaches thereto within a period of not to exceed 30 years. When such funds have been so provided, the Manette Bridge would be maintained and operated free of tolls.

The Manette Bridge was constructed as a privately owned toll bridge and completed in 1930. Section 3 of the 1926 act authorizing the construction of the bridge provided that if the bridge were acquired by a political subdivision of the State of Washington it would

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be operated as a free bridge or tolls thereon adjusted to provide for costs of maintenance and operation after costs of acquistion had been paid.

It is understood that the Manette Bridge became a part of the State highway system in 1939 and that tolls were then discontinued. It is also understood that present traffic conditions are such that excessive congestion and delay occur at peak traffic hours. The pending bill would permit the imposition of tolls on this bridge and the use of such tolls to aid in financing the construction of an adjacent toll bridge.

During its 1955 session, the Legislature of the State of Washington enacted legislation authorizing agreements between the Department of Highways and the Washington Toll Bridge Authority concerning the reconstruction and improvement of bridges on the State highway systems; authorizing the authority to carry out such work, to construct additional bridges, and to issue revenue bonds in connection therewith; and specifically authorizing construction of a toll bridge over the Port Washington Narrows and the reconstruction and improvement of the approaches to and the imposition of tolls upon the Manette Bridge (ch. 208, Laws of 1955, State of Washington).

The existing bridge is on the Federal-aid secondary highway system; however, Federal-aid funds were not involved in the construction of the bridge or its approaches.

The Department would interpose no objection to enactment of the pending bill.

Budget Bureau has advised that it would interpose no objection to the submission of this report to the committee.

Sincerely yours,

SINCLAIR WEEKS,
Secretary of Commerce.

DEPARTMENT OF THE ARMY,
Washington 25, D. C., October 17, 1955.

Hon. DENNIS CHAVEZ,
Chairman, Committee on Public Works,
United States Senate.

DEAR MR. CHAIRMAN: Reference is made to your request for the views of the Department of the Army with respect to S. 2712, a bill to authorize the charging of tolls for transit over the Manette Bridge in Bremerton, Wash.

The Department of the Army offers no objection to favorable consideration of the above-mentioned bill if amended as suggested below.

The act of June 14, 1926 (44 Stat. 744) authorized the construction, maintenance, and operation of a bridge and approaches thereto, by W. E. Buell, across Port Washington Narrows within the city of Bremerton, Wash., in accordance with the provisions of the act of Congress of March 23, 1906. Section 2 provides for acquisition of the bridge by public agencies and section 3 provides further for the charging of tolls to provide for the maintenance, repair, and operation of the bridge and to provide a sinking fund to amortize the amount paid for the bridge and approaches within a period of 15 years from the date of such acquisition. After the sinking fund is provided the bridge is to be free of tolls or the tolls so adjusted as to provide only for the costs of maintenance, operation, and repair of the bridge.

S. 2712 would authorize the Washington Toll Bridge Authority as an agency of the State of Washington to fix and charge tolls on the Manette Bridge notwithstanding any provision to the contrary contained in the act of June 14, 1926. Tolls would be collected on the Manette Bridge and not more than one additional bridge hereafter to be constructed by such authority adjacent to the Manette Bridge across Port Washington Narrows to provide a fund sufficient to pay the cost of the maintenance and operation of both such bridges and provide a sinking fund sufficient to amortize the cost of reconstructing and improving the Manette Bridge and of constructing such additional bridge and the approaches thereto, including interest and financing costs within a period of not more than 30 years after such reconstruction or construction and improvement is commenced. After amortization, the Manette Bridge shall be maintained and operated free of tolls. It is apparently the intent of the bill that both bridges shall eventually be free of tolls. It is therefore suggested that the words "Manette Bridge" in line 20, page 2, be deleted and the word "bridges" substituted therefor.

The Bureau of the Budget advises that there is no objection to the submission of this report.

Sincerely yours,

(Signed) Wilber M. Brucker,
WILBER M. BRUCKER,
Secretary of the Army.

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Calendar No. 1751

84TH CONGRESS, 2d Session | SENATE | REPORT No. 1730

BRIDGE ACROSS THE MISSISSIPPI RIVER AT OR NEAR ROCK ISLAND, ILL., AUTHORIZING RECONSTRUCTION, ENLARGEMENT, AND EXTENSION

APRIL 16 (legislative day, APRIL 9), 1956.—Ordered to be printed

Mr. CHAVEZ, from the Committee on Public Works, submitted the following

REPORT

[To accompany S. 2091]

The Committee on Public Works, to whom was referred the bill (S. 2091) authorizing the reconstruction, enlargement, and extension of the bridge across the Mississippi River at or near Rock Island, Ill., having considered the same, report favorably thereon with amendments and recommend that the bill as amended do pass.

The amendments are indicated in the bill as reported and are as follows:

On page 2, line 15, change the period to a colon and add the following:

> *Provided*, That such approaches shall include only those necessary portions of streets, avenues, and boulevards which are directly connected with the bridge, or which are located immediately adjacent thereto, and whose principal use is to provide access to the bridge.

On page 3, line 12, after "operated" insert "free of tolls".

PURPOSE

The purpose of S. 2091 is to amend the act approved March 18, 1938 (52 Stat. 110), which authorized the city of Rock Island, Ill., to construct, maintain, and operate a toll bridge across the Mississippi River at or near Rock Island, by authorizing the reconstruction, enlargement, and extension of said bridge and its approaches, including the altering, widening, laying out, opening, or construction of streets to provide adequate approaches to the bridge; to provide for adjustment or tolls to cover the cost of such reconstruction work within a period of not to

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exceed 30 years from the date of its completion; and upon amortization of the proposed improvements to maintain and operate the bridge free of tolls.

STATEMENT

The act of March 18, 1938, authorized the city of Rock Island, Ill., to construct, maintain, and operate a toll bridge across the Mississippi River from Rock Island, Ill., to Davenport, Iowa, in accordance with the provisions of an act to regulate the construction of bridges over navigable waters, approved March 23, 1906, with tolls to be charged for a period not in excess of 30 years, after which time it would be operated as a free bridge.

The Rock Island Centennial Bridge was completed in 1940, and since that time the average daily traffic over the bridge has increased from 4,000 to 12,000 vehicles per day. The bridge is a four-lane bridge, and can accommodate a large volume of traffic, but it is estimated that its present approaches have only one-third to one-fourth the capacity of the bridge. Approximately 10 percent of the vehicles using the bridge are large trucks which are channeled through the business areas. Based on the present revenue, the bridge will be toll free in 1959.

The metropolitan area of Rock Island and Moline, Ill., Davenport, Iowa, and adjacent cities, has a total population of about 200,000. The area is highly industrialized, with an estimated 126 industries with 29,000 employees on the Illinois side, 179 industries with 15,000 employees on the Iowa side, and 6,000 employees at the Rock Island Arsenal located on an island in the river. Being one metropolitan area, the traffic across the river produced by this employment is extremely heavy on the available bridges.

Approximately eight blocks east of the Centennial Bridge is a free Government bridge connecting Rock Island and Davenport by way of the Rock Island Arsenal. Practically all of the employees at the arsenal travel to and from their homes by motor vehicles over the free bridge. The present average flow over this bridge is 15,000 to 18,000 vehicles per day. This traffic is impeded by the opening of the bridge to permit boats to pass, which averages about 125 openings monthly.

The committee has been advised that the city of Rock Island believes that refinancing and extending the small toll of 10 cents per passenger vehicle is a practical, equitable, and feasible method of improving the approaches to the bridge. It is estimated that under this procedure the proposed improvements will be completely paid for and the bridge become toll free by about 1970.

The committee believes that steps should be taken to permit the Centennial Bridge to be utilized to its designed capacity to relieve the existing and anticipated traffic conditions. The approaches appear to be the key to the problem in this case, and unless corrected to permit a free flow of traffic across the river, the economy of the area will be adversely affected and the movement of highway traffic will be impaired.

The committee is of the opinion that adequate approaches to the bridge, with attendant improvement of access roads and streets, will afford safe and rapid approach to the bridge and increase its utility; prevent congestion and overflow of traffic and trucks in the downtown city area; and handle the heavy increase in traffic expected from the

nearby terminus of the Illinois toll road East-West Highway and the construction of a new bridge over Rock River.

The committee further believes that the approaches included as a part of the bridge project should be only those used primarily for access to the bridge, and not extend beyond an area where some use could be made of such roads irrespective of their use in connection with the bridge. It does not believe that tolls for crossing the bridge should be used to finance city streets, avenues, or boulevards, not in close proximity to the bridge. An amendment to the bill to clarify this language is recommended.

The bill has also been amended to conform with the general policy established by Congress in the Federal Bridge Act of 1946 (60 Stat. 812) with respect to the freeing of publicly owned interstate toll bridges when the costs thereof have been repaid from toll collection

In view of the urgent need for prompt relief of the traffic conditions in the Rock Island-Davenport area, the committee reports the bill for early consideration.

Comments of the Federal agencies on S. 2091 are as follows:

DEPARTMENT OF THE ARMY,
Washington, D. C., September 16, 1955.

Hon. DENNIS CHAVEZ,
Chairman, Committee on Public Works,
United States Senate, Washington, D. C.

DEAR MR. CHAIRMAN: Reference is made to your recent request for the views of the Department of the Army with respect to S. 2091, 84th Congress, 1st session, a bill authorizing the reconstruction, enlargement, and extension of the bridge across the Mississippi River at or near Rock Island, Ill.

The act of March 18, 1938, authorized the city of Rock Island, Ill., to construct, maintain, and operate a toll bridge across the Mississippi River from Rock Island, Ill., to Davenport, Iowa, in accordance with the provisions of an act to regulate the construction of bridges over navigable waters, approved March 23, 1906. S. 2091 would amend the above-mentioned act by authorizing the city of Rock Island, Ill., subject to prior approval of plans by the Chief of Engineers and the Secretary of the Army, to reconstruct and enlarge such bridge and to reconstruct, enlarge, and extend the approaches to such bridge. The costs of the bridge and approaches would be amortized by toll revenues within a period not to exceed 30 years from the completion of the reconstruction. After amortization the bridge would be maintained and operated in accordance with arrangements to be agreed upon between the city and appropriate agencies of the States of Iowa and Illinois. It is the interpretation of the Department that the bill as drafted contains no sanction for continuance of tolls after the amortization period, but it does not explicitly prohibit tolls beyond that period as does the General Bridge Act of 1946. The bill could be made to conform to the General Bridge Act of 1946 by adding after the word "operated" at the end of line 12 on page 3 the words "free of tolls".

Subject to the foregoing, no objection is perceived to the enactment of S. 2091.

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The Bureau of the Budget advises that there is no objection to the submission of this report.

Sincerely yours,

WILBER M. BRUCKER,
Secretary of the Army.

THE SECRETARY OF COMMERCE,
Washington, D. C., March 22, 1956.

Hon. DENNIS CHAVEZ,
Chairman, Committee on Public Works,
United States Senate, Washington, D. C.

DEAR MR. CHAIRMAN: This letter is in reply to your requests of May 28, 1955, and June 23, 1955, for the views of this Department concerning S. 2091 and S. 2298, identical bills authorizing the reconstruction, enlargement, and extension of the bridge across the Mississippi River at or near Rock Island, Ill.

The bills would amend the act approved March 18, 1938 (52 Stat. 110), which authorized the city of Rock Island, Ill., to construct, maintain, and operate a toll bridge across the Mississippi River at or near Rock Island, by authorizing the reconstruction, enlargement, and extension of said bridge and its approaches, including the altering, widening, laying out, opening, or constructing of streets to provide adequate approaches to the bridge. Section 4 of the 1938 act would be amended to provide that tolls be adjusted to cover the cost of such reconstruction work within a period of not to exceed 30 years from the date of its completion. The bills provide that upon amortization of the proposed improvements the bridge would thereafter be maintained and operated "in accordance with such arrangement as may be agreed upon" by the city of Rock Island and the State Highway Departments of Iowa and Illinois.

The bills provide that the approaches to the bridge may include "any streets, avenues, or boulevards within or without any municipality deemed necessary by said city" in order to provide adequate traffic regulations and approach or approaches to said bridge. Particular attention is drawn to this broad language, since it would seem difficult to ascertain therefrom the extent to which tolls on the bridge may be used to finance city streets which conceivably may be far removed from the bridge.

Under the existing provisions of the 1938 act, the present bridge, which was completed in 1940, is required to be paid for within a period of 30 years after its completion and thereafter to be maintained and operated free of tolls. The proposed legislation would remove the existing toll-free requirement and would seemingly permit perpetuation of tolls on the proposed enlarged structure with no Federal statutory provision to insure that tolls ultimately would cease. The bills, therefore, would be in conflict with the general policy established by Congress in the General Bridge Act of 1946 (60 Stat. 812) with respect to the freeing of publicly owned interstate toll bridges when the costs thereof are repaid from toll collections.

The Department is of the view that the pending bills should be consistent with whatever general policy Congress has established with respect to publicly owned interstate toll bridges, since no reason appears to justify an exception thereto in this case. In order that

the bills will conform to such policy as expressed in the General Bridge Act of 1946, it is recommended that there be inserted in line 12 on page 3, immediately after the word "operated", the words "free of tolls".

Subject to the foregoing comments, the Department would interpose no objection to enactment of legislation such as that proposed by the pending bills.

Please consider this letter as superseding the Department's letter submitted to your committee on September 6, 1955, with respect to S. 2091. The only change made is the addition in this letter of paragraph 3 relating to the approaches to the bridge.

We have been advised by the Bureau of the Budget that it would interpose no objection to the submission of this letter.

Sincerely yours,

SINCLAIR WEEKS, *Secretary of Commerce.*

EXECUTIVE OFFICE OF THE PRESIDENT,
BUREAU OF THE BUDGET,
Washington 25, D. C., August 19, 1955.

Hon. DENNIS CHAVEZ,
Chairman, Committee on Public Works,
United States Senate, Washington 25, D. C.

MY DEAR MR. CHAIRMAN: This is in reply to your letter of May 28, 1955, requesting the views of this office with respect to S. 2091, a bill authorizing the reconstruction, enlargement, and extension of the bridge across the Mississippi River at or near Rock Island, Ill. This will also reply to your letter of June 23, 1955, requesting our views with respect to an identical bill, S. 2298.

In his report to your committee on S. 2091, the Secretary of Commerce is interposing no objection if it is amended to conform to the general policy established by the General Bridge Act of 1946, which states that a bridge must be freed of tolls within a maximum amortizing period of 30 years. It is understood that the city of Rock Island intends to conform to this established policy.

If so amended, the Bureau of the Budget would have no objection to enactment of the bill.

Sincerely yours,

PERCY RAPPAPORT,
Assistant Director.

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Calendar No. 1752

84TH CONGRESS, 2d Session | SENATE | REPORT No. 1731

BRIDGE ACROSS MISSOURI RIVER BETWEEN FORT LEAVENWORTH MILITARY RESERVATION IN KANSAS AND PLATTE COUNTY, MO., TRANSFERRING JURISDICTION AND AUTHORIZING REMOVAL

APRIL 16 (legislative day, APRIL 9), 1956.—Ordered to be printed

Mr. CHAVEZ, from the Committee on Public Works, submitted the following

REPORT

[To accompany S. 2092]

The Committee on Public Works, to whom was referred the bill (S. 2092) transferring to the jurisdiction of the Department of the Army the bridge across the Missouri River between the Fort Leavenworth Military Reservation in Kansas and Platte County, Mo., and authorizing its removal, having considered the same, report favorably thereon with amendments and recommend that the bill, as amended, do pass.

The amendments are as follows:

On page 2, line 6, strike out "if and when" and insert in lieu thereof the word "as".

On page 2, line 9, before "utilities" insert "Government-owned".

PURPOSE

The purpose of this bill is to authorize the Attorney General of the United States to transfer back to the Department of the Army jurisdiction over the existing bridge across the Missouri River at Fort Leavenworth, Kans., which connects the military reservation with lands of the Department of Justice; repeal a proviso of the Second Deficiency Act of 1924 (43 Stat. 687), requiring the bridge to be open to public use; and to authorize the Secretary of the Army to remove said bridge and relocate Government-owned utilities now carried by the bridge, including authorization of appropriation of necessary funds for such work.

STATEMENT

The bridge was constructed in 1872 and has been closed to traffic since April 2, 1955, when a new toll highway bridge, about 1½ miles

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downstream was opened to traffic. The new bridge is on a relocation of State Route 92 which will permit the removal of through traffic from the Fort Leavenworth Military Reservation.

In its present condition, the bridge is considered to be a hazard and an unreasonable obstruction to navigation, and its removal is desired. The removal of the bridge will also require relocation of the Government-owned utilities now carried by the bridge and serving the facilities of the Department of Justice in Platte County, Mo.

The utilities carried by the old bridge are as follows:

1. A 6-inch waterline on the bottom chord of the north truss. This line is connected to the Fort Leavenworth water-distribution system and extends to and serves the Department of Justice Honor Prison Farm on the Missouri side of the river. It is proposed to relocate the waterline to cross the Missouri River on the new bridge. The estimated cost of relocating the waterline is $150,000.

2. A 2,400-volt electric-distribution line furnishing power to the prison farm. This line will be salvaged. The Department of Justice has determined that equal service can be obtained from a public utility on the Missouri side without a connection charge.

3. A 16-inch natural-gas line belonging to the Cities Service Gas Co. located on the bottom chord of the south truss. This line is now being relocated by the owner to cross the river on the new bridge.

4. Telephone lines of the Southwestern Bell Telephone Co. are now being relocated by the owner.

The estimated cost of removing the bridge is $320,000, which with the estimated cost of relocating the waterline, will require a total authorization for appropriation of $470,000 to carry out the provisions of this bill.

The committee is of the opinion that since the bridge is no longer in use, and as it constitutes a hazard and obstruction to navigation in its present condition, its removal should be authorized. It appears that the only utilities now carried by the bridge that will require relocation at Federal expense are the Government-owned utilities, and the bill has been amended to relieve the Federal Government of any responsibility in connection with relocation of utilities which are not owned by the Government.

The committee believes this legislation desirable in the public interest and recommends its enactment.

Comments of the Federal agencies expressing their approval of S. 2092 are as follows:

DEPARTMENT OF THE ARMY,
Washington, D. C., July 22, 1955.

Hon. DENNIS CHAVEZ,
Chairman, Committee on Public Works,
United States Senate, Washington, D. C.

DEAR MR. CHAIRMAN: Reference is made to your recent request for the views of the Department of the Army with respect to S. 2092, 84th Congress, 1st session, a bill transferring to the jurisdiction of the Department of the Army the bridge across the Missouri River between the Fort Leavenworth Military Reservation in Kansas and Platte County, Mo., and authorizing its removal.

The Department of the Army offers no objection to favorable consideration of S. 2092, subject to the comment that follows.

S. 2092 repeals a proviso of the Second Deficiency Act of 1924 (43 Stat. 687), requiring the bridge to be opened to public use, and authorizes the Attorney General to transfer the bridge to the jurisdiction of the Department of the Army and further authorizes the Secretary of the Army to remove the bridge if and when it constitutes an unreasonable obstruction to navigation. Such appropriation is authorized as may be necessary for removal of the bridge and relocation of utilities now carried by the bridge.

The bridge was constructed in 1872 and has been closed to traffic since April 2, 1955, when a new toll highway bridge, about 1½ miles downstream, was opened to traffic. In its present condition the bridge is considered to be a hazard and an unreasonable obstruction to navigation. Accordingly, it is suggested that the bill be amended on page 2, line 6, by striking out the words "if and when it constitutes" and substituting therein, the word "as." It is also suggested that the provision for relocation of utilities carried by the bridge and serving the Justice Department facilities be limited to Government-owned utilities by inserting on page 2, line 9, the words "Government-owned" preceding the word "utilities".

The cost of removing the bridge and relocating Government-owned utilities is presently estimated at $470,000.

The Bureau of the Budget advises that there is no objection to the submission of a similar report on S. 1994, an identical bill.

Sincerely yours,

WILBER M. BRUCKER,
Secretary of the Army.

DEPARTMENT OF JUSTICE,
OFFICE OF THE DEPUTY ATTORNEY GENERAL,
Washington, July 22, 1955.

Hon. DENNIS CHAVEZ,
Chairman, Committee on Public Works,
United States Senate, Washington, D. C.

DEAR SENATOR: This is in response to your request for the views of the Department of Justice concerning the bill (S. 2092) transferring to the jurisdiction of the Department of the Army the bridge across the Missouri River between the Fort Leavenworth Military Reservation in Kansas and Platte County, Mo., and authorizing its removal.

Under the bill the Attorney General would be authorized and directed to transfer back to the jurisdiction of the Department of the Army the bridge across the Missouri River at Fort Leavenworth, Kans., connecting the military reservation with lands belonging to the Department of Justice in Platte County, Mo. Provision would be made to effect a repeal of existing law (43 Stat. 687), requiring that the bridge be open to use by the public. The Department of the Army would be authorized to remove the bridge and necessary appropriations would be authorized for such purpose and relocation of utilities carried by the bridge which serve the lands of the Department of Justice in Platte County, Mo.

A new bridge in this area was completed and opened to traffic on April 2, 1955, and because of its dangerous condition the old bridge has been closed. The old bridge carries utilities which serve only the prison farm, but arrangements are underway to relocate or obtain such utilities from other sources.

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Inasmuch as the removal of this bridge is considered desirable and since it is an engineering problem, it is believed the simplest way to effect such removal is, as provided by the bill, to transfer the bridge to the Department of the Army. However, with respect to the provision in section 3 of the bill relative to "relocation of the utilities now carried by said bridge" a determination of what easements are held by the utilities involved cannot be determined without extensive research into very old records. The necessity for this would be obviated if the bill were amended by inserting after the word "the" in line 9 on page 2 of the bill the words "Government-owned." Such an amendment would relieve the Government of any responsibility for relocating utilities which are not owned by the Government.

If amended as herein suggested the Department of Justice would favor enactment of the bill.

The Bureau of the Budget has advised that there is no objection to the submission of this report.

Sincerely,

WILLIAM P. ROGERS
Deputy Attorney General.

THE SECRETARY OF COMMERCE,
Washington, August 12, 1955.

Hon. DENNIS CHAVEZ,
Chairman, Committee on Public Works,
United States Senate, Washington, D. C.

DEAR MR. CHAIRMAN: This letter is in reply to your request of May 28, 1955, for the views of this Department concerning S. 2092, a bill transferring to the jurisdiction of the Department of the Army the bridge across the Missouri River between the Fort Leavenworth Military Reservation in Kansas and Platte County, Mo., and authorizing its removal.

The bill would authorize the Attorney General to transfer back to the Department of the Army the jurisdiction of the existing bridge across the Missouri River at Fort Leavenworth, Kans., which connects the military reservation with lands of the Department of Justice. The bill would authorize the Department of the Army to remove the bridge if and when it becomes an unreasonable obstruction to navigation and would also authorize the appropriation of funds necessary for its removal. It is understood that the existing bridge was constructed in 1872 with an 18-foot roadway.

A new bridge is now being constructed by the city of Leavenworth, Kans., on a relocation of State Route 92 which will permit the removal of through traffic from the Fort Leavenworth Military Reservation.

The Department would interpose no objection to enactment of the pending bill.

We have been advised by the Bureau of the Budget that it would interpose no objection to the submission of this letter.

If we can be of further assistance in this matter, please call on us.

Sincerely yours,

SINCLAIR WEEKS,
Secretary of Commerce.

EXECUTIVE OFFICE OF THE PRESIDENT,
BUREAU OF THE BUDGET,
Washington, D. C., July 26, 1955.

Hon. DENNIS CHAVEZ,
Chairman, Committee on Public Works,
Senate Office Building, Washington, D. C.

MY DEAR MR. CHAIRMAN: This is in reply to your letter of May 28, 1955, requesting the views of this Office with respect to S. 2092, a bill transferring to the jurisdiction of the Department of the Army the bridge across the Missouri River between the Fort Leavenworth Military Reservation in Kansas and Platte County, Mo., and authorizing its removal.

For the reasons set forth in the reports of the Departments of the Army and Justice, this Office would have no objection to the enactment of this measure and endorses the suggested amendments of the Department of the Army.

Sincerely yours,

PERCY RAPPAPORT,
Assistant Director.

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Calendar No. 1753

84TH CONGRESS, 2d Session | SENATE | REPORT No. 1732

SMALL FLOOD-CONTROL PROJECTS

APRIL 16 (legislative day, APRIL 9), 1956.—Ordered to be printed

Mr. CHAVEZ, from the Committee on Public Works, submitted the following

REPORT

[To accompany S. 3272]

The Committee on Public Works, to whom was referred the bill (S. 3272) to increase and make certain revisions in the general authorization for small flood-control projects in the Flood Control Act of 1948, having considered the same, report favorably thereon without amendment and recommend that the bill do pass.

PURPOSE

The purpose of this bill is to authorize the Secretary of the Army to allot not to exceed $15 million in any 1 fiscal year for construction of flood-control projects not specifically authorized by law, when in the opinion of the Chief of Engineers such work is warranted. Such allotment would be subject to the following conditions: (1) That not more than $500,000 shall be allotted to a single project during any one fiscal year, (2) that the provisions of local cooperation of section 3 of the 1936 Flood Control Act, as amended, shall apply, (3) that State and local concurrence shall be obtained for each project prior to commencing construction, and (4) that the work shall be complete in itself and shall not commit the United States to additional improvements. The Secretary would be required to report to the Senate and House Committees on Public Works on any project costing over $150,000, 30 days before starting construction.

BILLS BEFORE COMMITTEE

Four similar bills dealing with emergency flood-control measures and authorization of small flood-control projects not specifically authorized by law were before the Senate Committee on Public Works for consideration. A brief summary of these bills is as follows:

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Senate bill 2853 would authorize the construction of flood-protection measures with particular reference to areas in New England, New York, and Pennsylvania, where severe damages have recently occurred as a result of extreme rainfall accompanying hurricane storms. It would authorize an allotment of not to exceed $10 million for any one fiscal year for the construction of flood-control projects not specifically authorized by law, when in the opinion of the Chief of Engineers such work is warranted, subject to the following conditions: (1) That not more than $500,000 shall be allotted for a single project during any one fiscal year, (2) the provisions of local cooperation of section 3 of the Flood Control Act of 1936 shall apply, (3) that State and local concurrence shall be obtained for each project prior to commencing construction thereon, and (4) that the work shall be complete in itself and shall not commit the United States to any additional improvements to insure its successful operation. The Secretary of the Army would be required to submit a report to the Committees on Public Works of the Senate and House of Representatives on projects with estimated costs in excess of $150,000, 30 days before initiation of construction thereon. A time limitation of June 30, 1960, would be placed on the authority contained in the bill.

Senate bill 3272 would amend section 205 of the Flood Control Act of 1948, as amended, to authorize the Secretary of the Army to allot not to exceed $15 million in any one fiscal year for construction of flood-control projects not specifically authorized by law, when in the opinion of the Chief of Engineers such work is warranted, without limitation as to the geographical area or time of the authority contained in the bill. Approval of projects would be subject to the 4 conditions specified in Senate bill 2853, and the reports on projects costing in excess of $150,000.

Senate bill 3273 would authorize the Secretary of the Army to allot not to exceed $20 million in any one fiscal year for construction of flood-control projects not specifically authorized by law, when deemed necessary and should be accomplished without delay for the protection of life and property. Approval of projects would be subject to the same four conditions and reports specified in Senate bills 2853 and 3272. The authority contained in this bill would be in addition to that provided in section 205 of the Flood Control Act of 1948, as amended, and authority for expenditures thereunder would expire June 30, 1960.

Senate bill 3469 would amend section 205 of the Flood Control Act of 1948, as amended, and authorize the Secretary of the Army to allot not to exceed $15 million for any one fiscal year for construction of small flood-control and bank-protection projects not specifically authorized by the Congress, which come within the provisions of section 1 of the Flood Control Act of 1936, when such work is deemed advisable by the Chief of Engineers, subject to provisions (1), (2), and (4) of S. 2853, S. 3272, and S. 3273.

COMMITTEE HEARINGS

The Committee on Public Works held hearings on these bills on March 22 and 29, 1956. Testimony and statements were received from Senators, Governors, Federal, State, and local officials, representatives of the Corps of Engineers, chambers of commerce, manufacturers, citizen groups, and interested parties.

These witnesses expressed their views with regard to the bills before the committee. They all discussed the severe disasters that have occurred in various sections of the Nation over the past year causing total damages approaching $1 billion. They stressed the urgent need for the immediate construction of flood-protective works in many areas of the United States which might otherwise be unduly delayed awaiting investigation and authorization under regularly established procedures. They emphasized the need for a liberalization of existing law with respect to approval and construction of small flood-control projects not specifically authorized by law.

After considering the bills and the testimony received at the hearings, the committee approved S. 3272 and concludes that this legislation will afford the best manner of meeting the urgent needs for small flood-control projects in many parts of our country as expeditiously as possible.

EXISTING LAW

Section 205 of the Flood Control Act approved June 30, 1948, authorized the Secretary of the Army to allot $2 million for any 1 fiscal year for construction of small flood-control projects not specifically authorized by Congress, and not within areas intended to be protected by projects so authorized, when in the opinion of the Chief of Engineers such work is advisable, subject to the provisions that, (1) not more than $100,000 shall be allotted for this purpose at any single locality from the appropriations for any 1 fiscal year, (2) the provisions of local cooperation specified in section 3 of the Flood Control Act of 1936, as amended, shall apply, and (3) the work shall be complete in itself and not commit the United States to any additional improvement to insure its successful operation.

Section 212 of the Flood Control Act approved May 17, 1950, amended section 205 of the Flood Control Act of 1948, by providing for an increase in allotments for any 1 fiscal year to a maximum of $3 million, and an increase in the allotment at any single locality to $150,000.

DISCUSSION

Certain flood-control work of an emergency nature has been undertaken by the Corps of Engineers during and after serious floods for many years. Section 7 of the Flood Control Act of 1928 authorized an emergency fund for rescue work or repair or maintenance of any flood-control work on tributaries of the Mississippi River threatened or destroyed by floods.

Section 2 of the Flood Control Act of 1937 authorized a general program for removing accumulated snags and other debris and clearing of channels in navigable streams and tributaries thereof in the interest of flood control, with a limitation on expenditure of not more than $25,000 on any single stream in any 1 year.

Section 5 of the Flood Control Act of 1941 authorized an allotment of funds to be expended in rescue work or in the repair or maintenance of any flood-control work threatened or destroyed by flood.

Section 14 of the Flood Control Act of 1946 authorized construction of emergency bank-protection works to prevent flood damage to highways, bridge approaches, and public works, with a limit of $50,000 for use at any single locality for any 1 fiscal year.

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These emergency authorizations have all been amended, extended, and broadened to cover the costs incurred by the Corps of Engineers in assisting the local organizations in flood fighting and rescue work and to provide for immediate repair of the levees and other flood-control works in order that the farming and other community activities in the stricken areas may be resumed as soon as possible. Emergency repair and temporary restoration of essential public facilities and certain other emergency types of assistance to local communities are performed under Public Law 875, 81st Congress, the Disaster Relief Act.

Realizing the inestimable value of the emergency flood-control work in permitting flood relief in urgent cases without awaiting the submission of formal reports and specific authorization by Congress, and with the knowledge that similar relief in equally justified cases could not be provided unless existing flood-control structures were involved or unless the project was one of clearing and snagging or of bank protection, Congress wisely authorized construction of a limited number of small flood-control projects, to be undertaken at the discretion of the Chief of Engineers.

The recent floods in the northeastern and western areas of the United States caused serious damages to many communities, industrial establishments, and farm areas. Unless some flood protection is provided to those areas to prevent future recurring damages and relieve the hazard of floods, no crops can be raised on the lands and the communities will be constantly faced with the threat of serious interruption of their business and community activities and the resultant heavy financial losses.

Numerous large flood-control projects have been authorized in past years over the country. Some of these have been completed and others are under construction. At the present rate of appropriation for construction of flood-control projects, it will be many years before the presently authorized projects are completed. Even with their completion, various areas, particularly on smaller streams, will remain unprotected and others will receive only partial protection. Investigations in the interest of flood control at additional localities are being prosecuted by the Corps of Engineers under authorizations from the Congress.

Representatives of the Corps of Engineers discussed their flood-control program with the committee, including the active projects, emergency activities, studies, and operations under section 205 of the Flood Control Act of 1948, as amended. The committee was advised that to date 43 projects with a total Federal cost of $4,486,000 have been completed or are under construction under authority of existing law. Five projects with a total cost of $691,000 have been approved for construction during fiscal year 1956. The division engineer for the New England division stated that he was aware of 9 localities in Connecticut and Massachusetts with an average cost of about $400,000 that could be completed during fiscal year 1957 under S. 3272. He further stated that in clearing the channels of certain streams in the New England area after the recent unprecedented floods, earth and rock-spoil had been deposited on the banks in the forms of dikes, but they would not be permanent or effective for flood protection in their present condition, nor could they be made effective within the present limitation of $150,000 for work in any single locality. This statement was corroborated by several other witnesses.

These representatives stated their recognition of the usefulness of authority to undertake small flood-control projects without going through the detailed survey and authorization process, and considered an increase in the individual project limitation from $150,000 to $250,000, with a corresponding increase in the annual appropriation limitation from $3 million to $5 million reasonable and warranted. This increase would adjust for the increased price level since 1950 and provide some flexibility for future fluctuations in prices.

The committee carefully considered the bills before it and the information presented. It believes that there is a large number of meritorious projects that could not be undertaken due to the monetary limitation imposed by existing law, and that the existing authority should be broadened and expanded to permit inclusion of such projects in the flood-control program. An increase in individual project limitation to $250,000 would care for an adjustment in price levels, but is not believed sufficient to provide the Chief of Engineers the necessary flexibility and expansion of existing authority to permit vigorous accomplishment of a large program.

The committee is aware of the popularity of the small-projects program under the existing authority, and the fact that limited appropriations have never permitted full utilization of such authority. It does believe that the committee should be kept advised of the program, and the bill includes a requirement for reporting to the Committee on Public Works on projects costing in excess of $150,000, prior to initiation of construction thereon.

The committee considered the merit of including authorization for bank stabilization and repair to the same extent as that for individual flood-control projects. It is realized that some bank-protection work must frequently be accomplished in connection with providing flood protection. There is a great need for that type of work and the committee questions the desirability of entering this large new field at this time, particularly since bank erosion frequently occurs at extreme low stages in the streams, and is not necessarily caused by high water or emergency conditions.

The committee notes that S. 3272 specifies the allotment for "any single project," whereas the existing law specifies such allotment "at any single locality." These terms are considered synonymous, and applicable to a complete useful project and not to different units or segments of a related project.

The committee approves the criteria and interpretation placed on the existing law with regard to the monetary limitation on allotments for any project for expenditure "during any one fiscal year," and believes that such allotment must be sufficient to complete the project, and that an extension or an additional project will not be necessary at a later date to provide the necessary protection.

In view of the seriousness of the flood problem in certain areas; the economic effects on thousands of inhabitants, including the loss of lives; the necessity for protecting vital national defense areas; and the apparent need for additional authority to undertake small flood-control projects on a broader basis, the Committee on Public Works unanimously reports this bill for early consideration.

Reports from the Department of the Army and the Bureau of the Budget on S. 3272 and similar bills are as follows:

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DEPARTMENT OF THE ARMY,
February 15, 1956.

Hon. DENNIS CHAVEZ,
Chairman, Committee on Public Works,
United States Senate.

DEAR MR. CHAIRMAN: Reference is made to your request for the views of the Department of the Army with respect to S. 2853, 84th Congress, a bill to authorize the construction of flood-protection measures, with particular reference to areas where severe damages have recently occurred as the result of extreme rainfall accompanying hurricane storms.

The Department of the Army has carefully considered the above-mentioned bill. The purpose of the bill is to authorize the accomplishment of flood-protective measures, not specifically authorized by law, along the Byram, Delaware, Housatonic, Farmington, Mianus, Norwalk, Rippowam, Thames, and Blackstone Rivers and other rivers in New England, Pennsylvania, and New York where in the opinion of the Secretary of the Army and the Chief of Engineers such measures are warranted. The proposed authority would expire June 30, 1960. The Secretary would be authorized to allot not to exceed $10 million for any 1 fiscal year for such flood-control projects subject to the following conditions: (1) Not more than $500,000 would be allotted for any single project in any one fiscal year; (2) the provisions of section 3 of the 1936 Flood Control Act, as amended, would apply in order to require local interests to provide lands, hold and save the United States free from damages, and maintain the works; (3) concurrence would be obtained from the affected State or political subdivisions; and (4) the work would be complete in itself and would not commit the United States to any additional improvement. The Secretary would be required to submit to the House and Senate Public Works Committees a report of the proposed plan of any project estimated to cost in excess of $150,000, and no work would be initiated on such a project until the expiration of 30 days following the transmission of the report.

In the consideration of this bill, full cognizance has been taken of the flood problem in the Northeastern States. In addition, consideration has been given to the need for small projects in other regions, to existing legislative authorities, and to the continuance of the present desirable policy under which the Congress specifically authorizes all major projects undertaken by this Department.

In connection with the latter consideration, on January 17, 1956, the President transmitted to the Congress, with his endorsement, a report of the Presidential Advisory Committee on Water Resources Policy in which it is recommended that all major projects and programs be authorized by specific act of Congress, and that the Congress establish a more precise definition of the term "small project" and make it binding upon all Federal agencies.

Authority to undertake small projects without specific authorization by the Congress is of value in dealing with a relatively restricted class of flood problems. However, these problems exist throughout the Nation. Hence it would not be advisable to limit authority to any particular region as would S. 2853.

Section 212 of the Flood Control Act of 1950 authorizes the Secretary of the Army to allot from flood-control appropriations funds for

the construction of small flood-control projects not specifically authorized up to $150,000 for a single locality, and up to $3 million for all such projects undertaken in any 1 fiscal year. The experience of the Corps of Engineers indicates that it would not be desirable to undertake without specific congressional authorization projects very much larger than those which may be constructed under authority of section 212. However, a raising of the limitation on total expenditures in any 1 year would be desirable, and some increase in the amount which may be spent on a single project might in a few instances be helpful.

After considering all aspects of the proposed legislation, this Department concludes that the objectives of the bill can best be attained by amendment of existing law. The Department of the Army recommends, therefore, that S. 2853 be modified in such a way that it amends section 212 of the Flood Control Act of 1950 (64 Stat. 183) to: (*a*) Raise the existing limit upon the cost of small flood-control projects from $150,000 to $250,000, and (*b*) increase the amount which may be allotted for such projects in any 1 fiscal year from $3 million to $10 million.

This Department is confident that by a judicious use of this amended legislation in conjunction with the provisions under which larger projects are submitted to the Congress for specific authorization, the needs of the Northeastern States, as well as those of other parts of the Nation, could be met with efficiency and dispatch.

Inasmuch as the Department has been requested to expedite this report, it is submitted without a determination by the Bureau of the Budget as to whether or not it conforms to the program of the President. As soon as such advice is received it will be forwarded to your committee.

Sincerely yours,

WILBER M. BRUCKER,
Secretary of the Army.

EXECUTIVE OFFICE OF THE PRESIDENT,
BUREAU OF THE BUDGET,
Washington 25, D. C., February 23, 1956.

Hon. DENNIS CHAVEZ,
Chairman, Committee on Public Works,
United States Senate, Washington, D. C.

MY DEAR MR. CHAIRMAN: This will acknowledge your request for the views of the Bureau of the Budget on S. 2853, to authorize the construction of flood-protection measures, with particular reference to areas where severe damages have recently occurred as the result of extreme rainfall accompanying hurricane storms.

The bill would authorize the Secretary of the Army to allot up to $10 million in any 1 year for construction of flood-control projects not specifically authorized by law, when in the opinion of the Chief of Engineers such work is warranted. Such allotments would be subject to the following conditions: (*a*) That not more than $500,000 shall be allotted to a single project during 1 year, (*b*) that the provisions of section 3 of the 1936 Flood Control Act, requiring local interests to provide lands, hold and save the United States free from damages, and maintain the work, shall apply, (*c*) that State and local concurrences shall be obtained, and (*d*) that the work shall be complete

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in itself and shall not commit the United States to additional improvement. The Secretary would be required to report to the Senate and House Public Works Committees on any project costing over $150,000 30 days before starting construction. The bill specifically directs the Chief of Engineers to undertake improvements of this type, subject to these conditions, along certain named rivers in the Northeastern States.

Section 212 of the Flood Control Act of 1950 authorizes the Secretary of the Army to allot up to $3 million in any 1 year for construction of small flood-control projects not specifically authorized by law, with not more than $150,000 to be allotted to any single locality in 1 year. In addition, the conditions of S. 2853 described above under (*b*) and (*d*) are also applicable to this authority. Thus, S. 2853 would in effect amend section 212 by increasing the total dollar limit on annual appropriations for this purpose and by increasing the dollar limit on costs of unauthorized projects which could be undertaken. However, it is not clear whether it is intended that this authorization be limited to the areas specified in section 1 of the bill.

It is considered that the established executive branch and congressional procedures for project authorizations and appropriations, along with the limited flexibility provided by section 212, are adequate to meet the need for expeditious initiation of construction of desirable flood-protection works. In addition, the Corps of Engineers is authorized by Public Law 99, 84th Congress, to undertake emergency flood-control work, including flood fighting and rescue operations and the repair or restoration of any flood-control work threatened or destroyed by flood.

Under the circumstances, we do not believe that it is necessary to amend section 212 as here proposed. Although section 212 permits appropriations of up to $3 million in any 1 year, the President has proposed and the Congress has appropriated amounts in fact considerably less than this annually. The greatest amount ever appropriated for this purpose was $1 million in 1950 and 1952, and $1 million is also recommended in the 1957 budget.

Furthermore, the limit of $150,000 on individual project costs has not to our knowledge been unduly restrictive so far as the selection of meritorious work to be undertaken is concerned. It is considered that an increase in this limitation of the amount contemplated by S. 2853 would have the effect of weakening both the accepted procedure for executive branch review and congressional authorization of projects and the established budget and appropriations process. However, the Bureau of the Budget would not object to increasing the limitation to $200,000 to reflect increased construction costs since 1950. If the authorizations were so limited, the provisions of section 3 of the bill would appear to be unnecessary.

Accordingly, the Bureau of the Budget recommends against enactment of S. 2853 in its present form, but would not object to legislation increasing the limitation on individual project costs from $150,000 to $200,000.

Sincerely yours,

(Signed) PERCY RAPPAPORT,
Assistant Director.

EXECUTIVE OFFICE OF THE PRESIDENT,
BUREAU OF THE BUDGET,
Washington, D. C., March 21, 1956.

Hon. DENNIS CHAVEZ,
Chairman, Committee on Public Works,
United States Senate, Washington, D. C.

MY DEAR MR. CHAIRMAN: This will acknowledge your requests for the views of the Bureau of the Budget on S. 3272 and S. 3273, both of which would increase monetary limitations on the authority of the Secretary of the Army to undertake small flood-control projects not specifically authorized by law.

The bills would authorize the Secretary of the Army to allot in the case of S. 3272 up to $15 million, and in the case of S. 3273 up to $20 million in any 1 year for construction of flood-control projects not specifically authorized by law, when in the opinion of the Chief of Engineers such work is warranted. Such allotments would be subject to the following conditions: (*a*) That not more than $500,000 shall be allotted to a single project during 1 year, (*b*) that the provisions of section 3 of the 1936 Flood Control Act, requiring local interests to provide lands, hold and save the United States free from damages, and maintain the work, shall apply, (*c*) that State and local concurrences shall be obtained, and (*d*) that the work shall be complete in itself and shall not commit the United States to additional improvement. The Secretary would be required to report to the Senate and House Public Works Committees on any project costing over $150,000 30 days before starting construction.

Section 212 of the Flood Control Act of 1950 authorizes the Secretary of the Army to allot up to $3 million in any 1 year for construction of small flood-control projects not specifically authorized by law, with not more than $150,000 to be allotted to any single locality in 1 year. In addition, the conditions of these bills described above under (*b*) and (*d*) are also applicable to this authority. Thus, these bills would amend section 212 by increasing the total dollar limit on annual appropriations for this purpose and by increasing the dollar limit on costs of unauthorized projects which could be undertaken.

Since reporting to you on S. 2853, a similar bill, the Bureau of the Budget has reviewed its position on legislation amending section 212 in the light of additional facts which have come to our attention. Based on that review, it is considered that some liberalization of the limits prescribed by section 212 would be warranted. Accordingly, the Bureau of the Budget would not object to amending section 212 to increase the limit on individual projects to $250,000 and the annual limit on appropriations for projects in this category to $5 million.

Sincerely yours,

(Signed) PERCY RAPPAPORT,
Assistant Director.

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CHANGES IN EXISTING LAW

In compliance with subsection (4) of rule XXIX of the Standing Rules of the Senate, changes in existing law made by the bill, as reported, are shown as follows in parallel columns:

EXISTING LAW	AMENDMENT UNDER S. 3272
(Section 205 of the Flood Control Act of 1948)	
SEC. 205. That the Secretary of the Army is hereby authorized to allot from any appropriations heretofore or hereafter made for flood control, not to exceed $2,000,000 for any one fiscal year, for the construction of small flood-control projects not specifically authorized by Congress, and not within areas intended to be protected by projects so authorized, which come within the provisions of section 1 of the Flood Control Act of June 22, 1936, when in the opinion of the Chief of Engineers such work is advisable: *Provided*, That not more than $100,000 shall be allotted for this purpose at any single locality from the appropriations for any one fiscal year: *Provided further*, That the provisions of local cooperation specified in section 3 of the Flood Control Act of June 22, 1936, as amended, shall apply: *And provided further*, That the work shall be complete in itself and not commit the United States to any additional improvement to insure its successful operation, except as may result from the normal procedure applying to projects authorized after submission of preliminary examination and survey reports.	SEC. 205. (a) The Secretary of the Army is hereby authorized to allot, from any appropriations heretofore or hereafter made for flood control, not to exceed $15,000,000 for any one fiscal year for the construction of flood control projects not specifically authorized by law when, in the opinion of the Chief of Engineers, such work is warranted, subject to the following conditions: (1) Not more than $500,000 shall be allotted for this purpose for any single project for expenditure during any one fiscal year; (2) The provisions of local cooperation specified in section 3 of the Flood Control Act of June 22, 1936, as amended, shall apply; (3) Concurrence shall be obtained from the affected State or political subdivision, or both, prior to the commencement of construction of each proposed project; and (4) The work shall be complete in itself and shall not commit the United States to any additional improvement to insure its successful operation except as may result from the normal procedure applying to projects authorized after submission of preliminary examination and survey reports. (b) (1) Before work is initiated under this section on any flood control project or other flood protective measure which the Secretary of the Army estimates will cost in excess of $150,000 for any one fiscal year, he shall submit to the Committee on Public Works of the Senate and the Commit-

EXISTING LAW

AMENDMENT UNDER S. 3272

tee on Public Works of the House of Representatives a report outlining the proposed plan of protection together with an analysis of the justification therefor. The report shall be delivered to both committees on the same day and while each House is in session. No work shall be initiated on any project or other measure with respect to which such a report is made until the expiration of the first period of thirty calendar days, of continuous session of the Congress, following the date on which the report is transmitted to the committees.

(2) For purposes of paragraph (1)—

(A) continuity of session shall be considered as broken only by an adjournment of the Congress sine die; but

(B) in the computation of the thirty-day period there shall be excluded the days on which either House is not in session because of an adjournment of more than three days to a day certain.

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Calendar No. 1754

84TH CONGRESS, 2d Session | SENATE | REPORT No. 1733

SUSPENDING THE APPLICATION OF SECTION 281, 283, OR 284 OF TITLE 18, UNITED STATES CODE

APRIL 16 (legislative day, APRIL 9), 1956.—Ordered to be printed

Mr. MCCLELLAN, from the Committee on the Judiciary, submitted the following

REPORT

[To accompany S. J. Res. 160]

The Committee on the Judiciary, to which was referred the resolution (S. J. Res. 160) to suspend the application of certain laws of the United States with respect to counsel employed by the special committee of the Senate established by Senate Resolution 219, 84th Congress, having considered the same, reports favorably thereon without amendment and recommends that the resolution be agreed to.

PURPOSE

The purpose of the proposed legislation is to provide that service or employment of the person first duly appointed as counsel for the special committee of the Senate, established by Senate Resolution 219, 84th Congress, 2d session, agreed to February 22, 1956, shall not constitute service or employment subjecting such person to the provisions of section 281, 283, or 284 of title 18, United States Code, or any other provisions of law while so temporarily employeed.

STATEMENT

The Committee on the Judiciary has, in the past, approved legislation such as herein proposed on the theory that occasional exemptions from the operation of the conflict of interest statutes are necessary in order to induce competent professional men to accept important assignments in Congress of a temporary nature such as in this instance and for which they are eminently and peculiarly qualified.

Enactment of this proposed legislation would exempt the counsel appointed for this special committee from various provisions of law, including the following:

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Section 281 of title 18, United States Code, makes it an offense for any officer or employee of the United States to receive compensation for services rendered to any person in relation to any proceeding or claim before any agency of the Government in which the Government is interested.

Section 283 of title 18, United States Code, prohibits any officer or employee of the United States from acting as an agent or attorney for the purpose of prosecuting any claim against the Government and also prohibits such officer or employee from aiding or assisting in the prosecution of such claim or from receiving any gratuity, or any share of, or interest in such claim.

Section 284 makes it an offense for a former officer or employee of the United States, within 2 years after termination of such employment, to prosecute a claim against the United States involving any matter directly connected with which such person was employed or performed duty.

The committee is of the opinion that this proposed resolution should be favorably considered in view of the necessity for securing adequate counsel for this special committee, and believes that the exemption as proposed herein is necessary to carry out the assignment granted to this select committee by the Senate of the United States.

Accordingly, the committee recommends favorable consideration of Senate Joint Resolution 160, without amendment.

○

84TH CONGRESS
2d Session

SENATE

REPORT
No. 1734

WELFARE AND PENSION PLANS INVESTIGATION

FINAL REPORT

OF THE

COMMITTEE ON LABOR AND PUBLIC WELFARE

SUBMITTED BY ITS

SUBCOMMITTEE ON WELFARE AND PENSION FUNDS

PURSUANT TO

S. Res. 225

(83d Congress)

AND

S. Res. 40

as extended by S. Res. 200 and S. Res. 232

(84th Congress)

TOGETHER WITH

SUPPLEMENTAL VIEWS OF MR. ALLOTT

AND

STATEMENT OF MR. NEELY

APRIL 16 (legislative day, APRIL 9), 1956.—Ordered to be printed

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LETTER OF TRANSMITTAL

APRIL 6, 1956.

Hon. LISTER HILL,
Chairman, Committee on Labor and Public Welfare,
United States Senate, Washington, D. C.

DEAR MR. CHAIRMAN: Pursuant to Senate Resolution 40, 84th Congress, 1st session, and Senate Resolution 232, 84th Congress, 2d session, I submit herewith the final report of the Subcommittee on Welfare and Pension Funds.

The report summarizes hearings and studies of the subcommittee and staff in the field of employee welfare and pension plans, and there is included the subcommittee's conclusions and recommendations respecting legislation. It is hoped that our findings will be of assistance to the committee and to the Congress in considering the need for further legislation in this field.

We wish to express our deep appreciation for the fine work done by the members of the committee staff headed by Paul J. Cotter, chief counsel; Dr. Louis S. Reed, research director; Francis X. Plant, Blake Turner, Arthur M. Kuhl, Robert Emmet Dunne, Frederic T. Suss, Duncan MacIntyre, Albert R. Imle, Louis Solomon, Joseph Zisman, Frank McNaughton, Ruth Aull, Genevieve Litwin, Mary Irwin, and Scally Gilmore.

The energy, ability, and integrity with which the staff carried out its investigations is indeed worthy of the highest praise. We also wish to acknowledge the fine work done by William Leece and William H. Coburn in directing the study during its earlier stages.

Faithfully yours,

PAUL H. DOUGLAS.

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84TH CONGRESS } SENATE { REPORT
2d Session } { No. 1734

WELFARE AND PENSION PLANS INVESTIGATION

APRIL 16 (legislative day, APRIL 9), 1956.—Ordered to be printed

Mr. DOUGLAS, from the Committee on Labor and Public Welfare, submitted the following

FINAL REPORT

Together with the

SUPPLEMENTAL VIEWS OF MR. ALLOTT AND A STATEMENT BY MR. NEELY

Pursuant to Senate Resolution 225 of the 83d Congress, as amended, and Senate Resolution 40 of the 84th Congress, as amended, the Committee on Labor and Public Welfare directed the Subcommittee on Welfare and Pension Funds to conduct an investigation of employee welfare plans and pension funds. The subcommittee, after making an extensive investigation and holding public hearings, has submitted a report of 366 pages to the committee. The committee herewith transmits the subcommittee report to the Senate in compliance with the above resolutions. The members of the committee other than the subcommittee have not found it possible to review and consider the report of the subcommittee within the time fixed by the resolutions, as amended, but transmit it to the Senate for the preliminary consideration of the Congress and the public. These members of the committee reserve judgment upon the recommendations made by the subcommittee.

The subcommittee report follows:

INTRODUCTION

The final report of this subcommittee of the Committee on Labor and Public Welfare covers a study and investigation of private employee welfare and pension plans which are subject to collective bargaining. It is submitted equally in the interest of management and labor upon whom our national economy rests.

Conducted pursuant to Senate Resolution 225, as amended (83d Cong., 2d sess.), and Senate Resolution 40 (84th Cong., 1st sess.), these studies were primarily directed at finding out whether further Federal legislation is necessary to protect the interests of the beneficiaries in

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these programs. Such studies involved, among other things, an appraisal of the present functions of Federal agencies as well as the adequacy of existing State controls in the welfare and pension field.

The mandate which brought about the subcommittee's investigation of these programs did not arise from a desire on the part of Congress to meddle in the affairs of either labor or management; it became necessary because of unfavorable developments in the welfare and pension programs, as recognized in the President's message of January 11, 1954.

Man's quest for greater security spurred the introduction of welfare and pension programs. Wartime expansion, wage stabilization, favored tax treatment, an era of high prosperity and employment, and a desire for greater employer-employee harmony, all fanned by collective bargaining, caused their astonishing growth over the last decade.

From 1945 to 1954 the number of persons covered by group life insurance more than doubled—from 11.4 to 28.7 million. In the same period, those covered by insurance companies under group hospital expense policies increased more than fourfold—from 7.8 to 35.1 million—while those covered by Blue Cross plans rose from 19 to 44 million. A similar growth took place in the number of employees covered by private pension plans—from 5.6 to 12.5 million in the decade 1945–54.

Today an estimated 75 million individuals—workers and their dependents—rely upon some form of group benefits program to meet the contingencies of sickness, accident, old age, and death. The plans or insurance policies underlying all programs number approximately half a million. Total contributions to all programs in 1954 reached an estimated $6.8 billion. Reserves of pension funds aggregate $20 to $25 billion.

The existence of welfare and pension programs is a tribute to the free enterprise system. They constitute an important underpinning of our economic security, broadening and supplementing the various governmental programs. They provide continued income for the sick wage earner, cover hospitalization and surgical costs, maintain purchasing power when the years of active earning are ended, and furnish security to dependents after the worker's death. They have revolutionized the concept of group insurance and have been a great boon to the insurance and banking industries. Their impact on the securities and investments markets can best be gaged in the light of the Securities and Exchange Commission report that pension funds reserves alone are currently the largest single source of equity capital.

The great good flowing from private employee welfare and pension programs is tempered with limitations inherent in many of them. Generally, when a worker is unemployed for a month or more, he no longer participates in the benefits. These programs are for the most part on a term basis and remain in effect only during active employment. This is particularly true of health or welfare programs but may be true of pension programs where employees leave the job prior to qualifying for retirement, for only about one-fifth have vesting rights under noncontributory plans (those in which the employer alone pays for the program). It is also true that the programs are at times used unfairly by labor and management as a lever on the em-

ployee—by the union to tie him to union membership and by management to tie him to the job.

These plans, sometimes called fringe benefits, have been bargained or installed on a cents-per-hour or percentage-of-payroll basis, a level-of-benefits basis, on a contributory or noncontributory basis, and on numerous other bases or combinations thereof.

It is apparent that the growth of these plans since the beginning of World War II has resulted in a gigantic, highly complex operation which has outrun and to an extent outmoded existing Federal and State laws and controls.

The subcommittee's studies and investigations indicate that most employee welfare and pension plans are being administered responsibly and honestly. However, the great good of these programs, and the high motives and conscientious effort on the part of most of those responsible for them, can be undermined by the serious abuses, maladministration, unsavory and unsound attitudes and practices found in some programs. These conditions originally flowed from the failure to provide adequate safeguards.

It is not surprising that in such an unsupervised development, many problems have arisen that merit public attention. Nor is it surprising that, with so much money involved and the absence of supervision, our investigation has indicated that an unscrupulous minority has preyed upon such funds: nor that there have been shocking abuses, such as embezzlement, collusion, kickbacks, exorbitant insurance charges, and various other forms of malfeasance. Mismanagement, lack of know-how, waste, extravagance, indifference, nepotism, and a lack of criteria for sound operation have contributed to the unnecessary drain on such funds with a consequent serious loss to the employee beneficiaries. That most of the programs are honestly administered is no excuse for the abuses, irregularities, and other deficiencies which have been found to exist. The fact that looting and dishonesty exist at all, points up the opportunity for abuse under the existing absence of controls.

These employer-employee plans, whether or not collectively bargained, or whether contributed to solely by management, or on a joint management-employee basis, actually, and under existing law, proceed on the basis that the contributions to them by management are in the nature of employees' compensation for employment or, stated in another way, "* * * that the cost of an employee's service is greater than the amount currently paid him as wages. * * *[1] We find that it has not followed that the employees accordingly have a right to know the cost of the programs, how the money is spent, the reserves maintained, and how the programs are managed.

It is startling to find an almost complete absence of any routine accounting to the beneficiaries of these programs. It appears to be accepted practice among the administrators of such programs to give little or no account of their stewardship and to treat the money more as their own than that of the beneficiaries. The attitude of secrecy usually prevails, particularly in the financing of the level-of-benefit type of program.

Should these programs of such vital importance to the national economy and to so many millions of people—both at present and

[1] Hearings, pt. 3, p. 1160.

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looking far into the future—be permitted to operate under an 18th century philosophy of laissez-faire? If so, we may well find that in some period of adversity we may have a monster on our hands with which it will be very difficult to deal.

The subcommittee's studies have shown the importance of the problems involved and how they affect the well-being of the beneficiaries of these programs. The various abuses found in a minority of these programs and, more importantly, the vast proportions to which they have grown, place a grave responsibility on the Government to protect the interests of the beneficiaries. But to ignore the programs outside the area of collective bargaining, where some of the same problems exist, would be inappropriate and unjust.

From the facts developed, the subcommittee believes that legislation requiring disclosure at the Federal level is necessary. Specific control legislation at the State level is likewise indicated.

The subcommittee's study was begun in May 1954, under the chairmanship and direction of Senator Irving M. Ives, Republican, of New York. The 1954 investigation primarily concerned itself with the Taft-Hartley type, collectively bargained, jointly administered welfare plans. Twenty-nine plans were subjected to detailed study. An interim report was submitted on January 10, 1955. Certain gross abuses in the administration of welfare funds were set forth. Other evidence then before the subcommittee as to the administration of plans and certain insurance practices, as well as the serious nature of the preliminary findings, warranted further inquiry. This was authorized by Senate Resolution 40, adopted on February 5, 1955.

The subcommittee held hearings in March and April 1955, under the chairmanship of Senator Paul H. Douglas, Democrat, of Illinois. Representatives of labor, management, insurance, and banking participated in a roundtable discussion of general problems in the area; a number of welfare programs were reviewed; and two plans manifesting corrupt operation (the Pointers, Cleaners & Caulkers Union, Local No. 52, welfare fund and the Laundry Workers International Union welfare fund) were examined in detail. A second interim report was published July 20, 1955, covering these hearings.

The evidence developed and the knowledge gained in the initial stages of the investigation demanded that the scope of the inquiry be enlarged to cover pension plans, unilaterally administered welfare plans, and that further study be made of industrywide plans and other types of employee-security programs. Accordingly, the subcommittee staff undertook in the last 5 months of 1955 to study and investigate other phases of this vast and complex operation.

Surveys were made of welfare and pension plan patterns and practices in the steel, automobile, coal mining, clothing, electrical, and trucking industries.

A hearing was held in July to receive testimony from various Federal agencies, i. e., Internal Revenue Service, Department of Justice, National Labor Relations Board, Department of Labor, Department of Health, Education, and Welfare, and the Securities and Exchange Commission as to the extent of any supervision these agencies exercise over employee welfare and pension plans under existing Federal laws. Separate staff conferences of record were held with representatives of the insurance industry, the banking industry, management, and eight international labor unions, to obtain information,

advice, and their views on various aspects of welfare and pension plans.

A number of unilateral, jointly managed, and union administered welfare and pension programs were investigated, as well as several insurance companies. Seven days of hearings were held in November and December 1955, covering specific union, joint, and management administered plans, insurance company practices, maladministration, etc.

Initial findings from questionnaires sent to all insurance companies then known to be writing group insurance for variations of the Taft-Hartley type programs were set forth in the January 1955 interim report, but the study was extended to an intensive analysis of insurance company practices and costs with respect to this type of plan.

Information was obtained from 7 insurance companies doing 68 percent of the group life-insurance business, which reflected distribution as to volume, experience, retentions, etc., by size of policy.

As a result of repeated suggestions that interlocking directorates and financial transactions between large insurance companies and large policyholders might have an influence in the placing of group insurance on other than a low net cost basis, 10 of the largest insurance companies upon request furnished information in this area.

To determine practices with respect to investment policies and actuarial soundness in the administration of pension funds through separate trusts, 65 banks with the largest trust departments upon request furnished information relative to the number and types of plans they held, lists of investments in trustor's own property and securities, and their practices as to assuring the actuarial soundness of plans.

An overall statistical study was made as to the total number of employees covered by various types of welfare and pension plans.

Provisions of Federal and State laws were examined to determine the extent to which they might apply to welfare programs, pension trusts, trustee responsibility, actuarial soundness of programs, and the protection of employee beneficiaries.

In addition, during 1954–55, the staff examined hundreds of individual plans in varying degrees of detail and interviewed literally thousands of officers and employees of industry, labor, insurance, banking, and related businesses.

This report can only briefly summarize the investigations, studies and hearings conducted. It should also be quite apparent that the limitations of time and staff prohibited more than an overall sampling of a small percentage of the hundreds of thousands of welfare and pension programs in existence today. The process necessarily had to be selective and aimed at disclosing major weaknesses and abuses. As the subcommittee's inquiry was made more intensive, a greater variety of weaknesses and abuses was uncovered.

In its inquiries, the subcommittee has attempted to avoid delving into union affairs or corporate operations. Only when there was a commingling of welfare funds with other funds was this necessary. It has sought to preserve individual rights and has notified persons, insofar as possible, when the evidence about to be brought out in its hearings might reflect adversely upon them.

The March–April hearings have been published as parts 1 and 2 of the subcommittee's hearings; the July and November–December hearings, as part 3.

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CONCLUSIONS AND RECOMMENDATIONS

CONCLUSIONS

The subcommittee, on the basis of its studies and investigations, makes the following findings and conclusions:

1. Private employee welfare and pension programs have grown to such proportions in this country and involve the use of such large tax-exempt funds as to place upon the Government a grave responsibility for their sound operation and to protect the equities of the beneficiaries and the public interest.

(*a*) Over 75 million persons, employees and dependents, or about one-half of the population of the Nation, are covered in some measure by employee welfare and pension programs. This tremendous development has come about principally in the past 10 years.

(*b*) Over $6.8 billion yearly are being contributed to such programs. Employers contribute approximately $4.5 billion and employees $2.3 billion. Between $20 and $25 billion have been amassed as reserves to meet the future contingencies of these programs, particularly future pension payments.

(*c*) The Government permits employers to deduct from taxable income their cost and contributions to these programs. The income from investment of reserves is also exempt from taxes.

(*d*) Since Congress has stated and the courts have held that employer contributions toward welfare and pension benefits are in the nature of compensation to employees, it must be concluded that whether the funds for such programs are contributed by the employers, the employees, or both, the employees have a right to know the financial details of such plans as well as to have their interest in such plans protected.

2. The lack of standards and the inadequacies of State and Federal laws have permitted employee welfare and pension programs to operate in such manner as to give rise to many abuses, problems, weaknesses and unsound practices which could jeopardize the operation of this system and give insufficient protection to the rights and equities of the employee-beneficiaries.

(*a*) While the great majority of welfare and pension programs are being responsibly and honestly administered, the rights and equities of the beneficiaries in many instances are being dangerously ignored. In other cases, the funds of the programs are being dissipated and at times become the hunting ground of the unscrupulous.

(*b*) There is no adequate legislation at either the Federal or State level to fully safeguard these welfare and pension funds or the rights of the employee-beneficiaries.

(*c*) Despite belief to the contrary, qualification by the Internal Revenue Service as to tax exemption for welfare and pension programs provides no real control over the operation of the plans and only minimum assurance of their actuarial soundness.

(*d*) A great many of these plans are sorely lacking in adequate accounting procedures. Auditing requirements in too many cases are non-existent. It is the exception when welfare and pension

programs provide for an accounting to or an audit on behalf of the beneficiaries.

(*e*) A serious problem at times in employer administered plans, particularly where the plan has been established or bargained on a level-of-benefits basis, is that the employer takes the position that he is delivering or guaranteeing an end-product, i. e., the benefits under the program, and that the costs of these benefits are private business costs, have no relation to employee compensation, and are therefore of no concern to the employees or others. If the employer's costs for these programs are a part of employees' compensation which he is permitted to deduct as such from his taxable income, then he is not delivering a product from his own costs and his employees are entitled to information on the financial operation of the plan.

(*f*) Many of the worst abuses found in welfare plan operations involve certain insurance practices. These abuses include high commissions, excessive administrative fees, high insurance company retentions, unequal treatment of the policyholders, activities of unscrupulous brokers and agents, including embezzlement of premiums, sometimes in collusion with union officials or management—mostly the result of inadequate control and nondisclosure to the interested parties.

(1) The insurance industry is entirely regulated by State law. Many State insurance authorities have been lax in cleaning up insurance practices. This is attributable in part to the fact that the problem of group insurance is interstate or national in scope and, perhaps in part, to the fact that some State regulatory agencies are too susceptible to the viewpoint of the industry;

(2) The insurance industry, which has long prided itself on maintaining high standards on a voluntary basis, has not yet set up a code of ethics to deter wrongdoing among its membership;

(3) Group insurance is a highly complex business, and serious impairment of beneficiaries' equities has at times occurred as a result of lack of knowledge of insurance practices on the part of those responsible for purchasing insurance;

(4) In many cases, group insurance is bought and not sold. The commissions paid by some insurance companies on group policies, frequently as high as 20 percent of the first-year premium, give many a broker or agent an unearned commission. Such commission practices affect plans administered solely by a union or by an employer as well as those jointly administered;

(5) The beneficiaries of self-insured welfare and pension plans do not presently have adequate protection under State laws.

(*g*) Some of the worst instances of individual abuses were encountered in the jointly managed multiemployer and union administered welfare programs. The unilateral nature of employer and union administered plans affords less opportunity for disclosure of information as to abuses or maladministration.

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(*h*) Lack of know-how, mismanagement, waste, extravagance, bad bookkeeping and indifference have caused a serious dissipation of the funds involved in these programs generally.

(*i*) Actuarial and investment soundness are the keystones to successful operation of pension programs. In many cases too little attention has been devoted to these factors.

(1) Corporate or bank trustees, while discharging their stewardships capably, cannot be held responsible for the financial and actuarial soundness of the plan. Often under the trust instrument they cannot control investments which impair the equities of the beneficiaries;

(2) A number of pension plans invest in substantial percentages of the securities and properties of the employing companies.

3. The subcommittee believes that the enactment of a Federal disclosure act would bring a great measure of order to the operation of private employee welfare and pension plans. The primary objective, the subcommittee has concluded, is one of assuring the immediate and long-range stability of private welfare and pension programs without impairing their voluntary or free-bargaining character. As shocking as the cases of dishonesty and fund looting have been and as great as the need is to bring this matter under control, the most important objective is to assure the maximum usefulness and safety of these programs in order that they may better meet the contingencies against which they were established.

(*a*) It cannot be assumed that the States will act uniformly or speedily, or that the problem can be met on a piecemeal basis. It is unrealistic to suppose that the 48 States will devise uniform procedures within a reasonable time to protect the interests and equities of the beneficiaries of these programs, lacking stimulus from the Federal level; nor can it be anticipated that any 1 State is so influential in this area as to bring this about.

(*b*) Disclosure of the workings of welfare and pension plans to a Federal agency is a mild remedy, reserving to the States a wide area for additional control. There is much room, in fact, at the State level for enactment of legislation designed to more clearly fix the responsibilities of trustees and to strengthen insurance regulations.

RECOMMENDATIONS

1. The subcommittee recommends the enactment of a Federal registration, reporting, and disclosure act which would be effective for a 3-year period and which should require—

(a) Registration of all types of employee welfare and pension benefit plans which cover 25 or more employees. This registration should include identifying information respecting the plan as prescribed by the act and the regulations of the agency. It should be made within 90 days of the effective date of the act or the establishment of plans subsequent thereto.

(b) An annual report, as prescribed by the act and regulations thereunder, by all employee welfare and pension benefit plans which (1) include 100 or more employees and which (2) include less than 100 employees but are in fact operated or administered

on some common basis with other plans (namely, common officers or administrators, union bargaining representatives, or employers, etc.) and, together, include in the aggregate 100 or more employees. The report should be attested to by the principal officer or officers thereof, and contain a detailed financial statement of the operations based upon an audit in accordance with accepted standards of auditing addressed to the beneficiaries and certified by an independent public accountant.

(1) The administrative agency should have discretion to require reporting and disclosure by a particular plan or plans covering between 25 and 100 employees on an annual basis, or less frequently, and to require compliance with other provisions of the act when, in the opinion of the agency, such action is deemed necessary to accomplish the objectives of the act.

(c) Disclosure of information contained in the annual report should be made to the beneficiaries of the plan and other interested parties by making copies available for examination at the principal offices of the plan and in the public documents room of the administrative agency and by providing the beneficiaries with information from the report in prescribed summary form by personal delivery or mail.

(1) The Federal agency should have authority to cause further distribution of annual reports to any other Federal or State agency.

(d) Criminal penalties should be imposed for willful violation or failure to comply with the act or willful false statements or misrepresentations or omission of a material fact, or for unlawful or willful conversion of the funds of any plan or program.

(e) Constitutional authority for such an act should rest upon jurisdiction over taxation, interstate commerce, and the general welfare.

(f) The agency should be given the usual administrative powers to carry out the functions of the act, compel the production of records, conduct investigations, and take any other measures necessary to administration and enforcement.

(g) Based upon its studies, and after 2 years' experience with the act, the administrative agency should make a comprehensive report to the Congress and include therein its recommendations as to the continuance, simplification, or modification of legislation. This report should be furnished in time to permit Congress to take appropriate action before the expiration of the act.

2. The subcommittee has no strong view as to which Federal agency should administer such an act. It is possible to use any one of several existing agencies—namely, the Department of Labor, the Department of Health, Education, and Welfare, the Internal Revenue Service, or the Securities and Exchange Commission—since the functions of each of these agencies have some relation to this field. It might also be feasible to create a new independent agency for this purpose. For the present, the subcommitttee is inclined to favor the Securities and Exchange Commission because of its organizational setup and its established success in the administration of disclosure type statutes.

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3. The subcommittee also recommends the establishment of an advisory council to assist the Federal agency in the administration of such a disclosure act. The council should consist of 13 members, including 3 employee representatives, 2 representatives of management, a representative of the insurance industry, a representative of the banking industry, and 3 representatives of the general public, with the Secretaries of Labor and of Health, Education, and Welfare and the Commissioner of Internal Revenue ex officio members.

For a complete discussion of the subcommittee's recommendations on disclosure, see section IV: Need for Federal legislation.

PART ONE: THE FINDINGS

I. GROWTH, COMPLEXITIES, AND SCOPE OF WELFARE AND PENSION PROGRAMS

In many ways the unparalleled development of private employee welfare and pension plans is a testimonial to the genius and managerial ability of industry and labor.

These plans had their first beginnings many decades ago. However, the greatest growth has occurred since 1940, and more especially since 1945. For the most part, these systems grew up like Topsy. Within the last 10 years they have mushroomed with amazing speed and with almost no regulations and safeguards. It is surprising, in a system of such magnitude and complexity, that the abuses and weaknesses discovered by the subcommittee are not greater.

Welfare plans provide life-insurance or death benefits, disability insurance or payments during periods of disability, and hospital, surgical and medical insurance or direct provision of health services as required. They are a joint enterprise of the worker and his employer, and spread the losses incident to these contingencies over the group. They may take the form of a commercial insurance policy, self-insurance, or Blue Cross, Blue Shield, or similar nonprofit prepayment plans.

Pension plans provide benefits upon retirement due to old age or permanent disability.

Today, these programs provide in some degree various insurance coverages or retirement pensions for 75 million persons—29 million workers and their 46 million dependents. Thus, almost one-half the total population is affected by these plans. Their risk-spreading efforts have been cast in a framework of hundreds of thousands of collective-bargaining contracts, employer-employee arrangements, insurance policies, and trust agreements formulated by such diverse groups as union officials, corporate officers, insurance executives, bankers, and uncounted and uncountable mixtures and interplays of these plans.

At the end of 1954, the number of employees and their dependents covered under these plans, for the various types of benefits, were as follows:

Number of persons covered

Type of benefit	Employees	Dependents	Total	Employees covered as percent of all employees
Welfare:	*Millions*	*Millions*	*Millions*	*Percent*
Life insurance and death benefits	29.5	1.1	30.6	55.0
Accidental death and dismemberment	14.0		14.0	
Temporary disability benefits	23.2		23.2	43.6
Hospitalization	31.3	44.3	75.6	59.0
Surgical	28.5	39.0	67.3	53.0
Medical	17.3	21.4	38.7	32.0
Pensions	12.5			23.0

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Approximately 60 pecent of the workers who are covered for pension benefits and about 40 percent of those covered by the various welfare programs are under programs which are collectively bargained.[1]

In 1954, total estimated employer-employee contributions to these programs amounted to $6,846,200,000, of which employer contributions were $4,537,900,000 and employee contributions, $2,308,300,000.[2]

The payments into these programs are an investment in a sound national economy and continued prosperity. They are an investment in labor-management cooperation. The benefits flow to both groups.

A. FACTORS CONTRIBUTING TO GROWTH

The underlying factors responsible for the development of these benefit plans and their phenomenal growth in recent years have been the same as those responsible for the development of the various governmental insurance programs. These include the human desire for protection against income loss and other costs arising from illness, unemployment, disability, old age and death, and the fact that such protection can be obtained more economically on a group rather than an individual basis. Other important factors which have encouraged the development of these private employee welfare and pension programs have been:

(1) High corporation taxes during and since World War II, coupled with the allowance of tax deductions for contributions to these programs, thus permitting their establishment at a low net cost;

(2) Wage stabilization programs during and since World War II and the Korean conflict, which froze wage rates but permitted increased employee compensation in the form of these "fringe" benefits;

(3) Court decisions in the years 1948–50 which made welfare and pension matters a bargainable issue; and

(4) Since 1948, the drive of labor unions to obtain welfare and pension programs. Labor spokesmen state that another reason for the development of these programs has been the inadequacy of benefits under the governmental programs.

The development of health benefit programs has also been spurred by the advances in medical science which, while increasing the efficacy of medical care, have also increased its costs and make it difficult for individuals to meet those costs except on a spread-the-risk basis. Similarly, the development of private pension programs has been due, in part, to an increased interest in providing for old-age security.

B. GROWTH OF PROGRAMS

An indication of the phenomenal growth of these various benefit programs in recent years is the increase of group life insurance coverage from approximately 9 million in 1940 to 29 million persons as of the end of 1954; the increase in persons covered by insurance companies under

[1] Appendix I (p. 82) shows in detail the workers and dependents covered for each type of benefit under the various types of plans, and the number covered under and outside of collective bargaining.

[2] Details as to employer-employee contributions for the various coverages are shown in appendix II, p. 84

group hospital expense policies from 38,000 in 1935 to 35 million; the growth of the Blue Cross plans from 214,000 participants in 1935 to 44 million; and the increase in persons covered by pension programs from 3.7 million in 1940 to 12.5 million in 1954. Tables indicating this growth are set forth below.

Growth of group life insurance in the United States [1]

End of year	Number of master policies	Number of certificates	Amount of insurance in force (millions)	End of year	Number of master policies	Number of certificates	Amount of insurance in force (millions)
1912	25	12,000	$13	1935	19,000	6,112,000	$10,208
1915	275	120,000	100	1940	22,000	8,829,000	14,938
1920	6,000	1,600,000	1,570	1945	30,000	11,451,000	22,172
1925	12,000	3,200,000	4,247	1950	56,000	19,391,000	47,793
1930	20,000	5,734,000	9,801	1954	81,000	28,762,000	86,395

[1] Does not include group creditor insurance.

Growth of group hospital expense insurance and Blue Cross plan in the United States, 1935–54

Year (end of year)	Number of individuals covered		Year (end of year)	Number of individuals covered	
	Under group policies issued by insurance companies [1]	Blue Cross plans [2]		Under group policies issued by insurance companies [1]	Blue Cross plans [2]
1935	38,000	214,000	1950	22,305,000	37,451,000
1940	1,800,000	6,012,000	1954	35,090,000	44,201,000
1945	7,803,000	18,881,000			

[1] Almost all of these are employees and their dependents.
[2] Includes individual as well as group enrollment. About three-fourths are employees enrolled in groups and their dependents.

Growth in the number of private employee pension plans and in the number of employees covered thereunder [1]

End of year	Number of plans	Number of persons covered	End of year	Number of plans	Number of persons covered
		Thousands			*Thousands*
1930	720	2,400	1945	7,425	5,600
1935	1,090	2,600	1950	12,330	8,600
1940	1,965	3,700	1954	[2] 21,000	12,500

[1] Pensions in the United States, a study prepared for the Joint Committee on the Economic Report by the National Planning Association, 83d Cong., 2d sess., Joint Committee print, 1952, p. 11; data since 1951 from the Office of the Chief Actuary, Social Security Administration.
[2] Insured and funded plans, exclusive of pay-as-you-go.

C. TYPES OF ADMINISTRATION AND CONTROL

Generally, there are four main types of welfare and pension plans, considered from the standpoint of their administration and control:

1. Single employer administered plan;
2. Single employer-jointly (employer-union) administered fund;
3. Multiemployer-jointly (employer-union) administered fund;
4. Wholly union administered plan.

Virtually all plans fall into one or another of these classifications.

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The subcommittee roughly estimates that the proportions of workers covered under welfare and pension plans through each of these four arrangements are as follows:[3]

	Welfare plans	Pension plans
	Percent	*Percent*
Total, all types of plans	100	100
Single employer administered plan	92.0	86.0
Single employer-jointly (employer-union) administered fund	.5	.5
Multiemployer-jointly (employer-union) administered fund	7.0	13.0
Wholly union-administered plan	.5	.5

1. SINGLE EMPLOYER ADMINISTERED PLAN

This represents by far the most common type of arrangement, under which the employer, either under or outside of a collectively bargained agreement, administers a welfare or pension plan. The employer may contribute a fixed or unspecified portion of the cost. The typical arrangement for a welfare plan is one where the employer makes specified insurance benefits available to his employees and pays the remainder of the cost over and above specified employee contributions; less frequently the employer pays the entire cost. If the benefits are provided through an insurance carrier, the employer usually selects the carrier and receives the insurance dividend or experience rating refund, if there is one. In the case of a pension program, the employer administers and controls a plan which provides specified pension benefits upon retirement of employees who meet certain eligibility conditions. Most pension programs are noncontributory, i. e., the employer pays the whole cost; some are contributory, i. e., employees make contributions.

2. SINGLE EMPLOYER-JOINTLY (EMPLOYER-UNION) ADMINISTERED PLAN

While this type of plan also covers only the employees of a single company, it differs from that described in the preceding paragraph in that real control of the plan is shared by the employer and the union, as provided under section 302 (c) of the Labor Management Relations Act of 1947 (Taft-Hartley Act). Under such arrangements, in most cases, the management agrees with the union to contribute so many cents per employee-hour worked, or a specified percentage of its payroll, to a fund managed by a committee or a board of trustees representing the company and the union. The moneys in this fund are then used to finance the agreed upon welfare and/or pension benefits.

[3] A recent survey in New York State found that of all employees who were covered under health and welfare plans approximately 71 percent were covered under single employer plans and 29 percent under multiemployer plans. In New York City the proportion of the workers covered under multiemployer plans was approximately 40 percent; in upstate New York, 9.5 percent. It is believed that the situation in upstate New York would be more characteristic of the country as a whole than New York City. Hence, it may be estimated that of the 29.5 million employees in the country who are covered for life insurance and death benefits, not more than 9.5 percent, or 2.8 million, would be covered through multiemployer jointly managed funds. The subcommittee's own study of insured welfare funds, i. e., of insurance policies written in which a welfare fund is the policyholder, found that the total premiums under all such policies amounted in 1953 to $98 million. This is about 5 percent of the total premiums on all group insurance written by insurance companies that year.

3. MULTIEMPLOYER-JOINTLY (EMPLOYER-UNION) ADMINISTERED PLAN

This type of plan is typically established by contract between a union or unions and a number of employers. The agreement generally provides that all of these employers will make specified contributions into a fund, usually on the basis of so many cents per employee-hour worked, or a percentage of payroll. The fund is also jointly managed as required by the Taft-Hartley Act, by trustees representing the employers and the union, in equal numbers. (Too often this does not result in actual dual or joint control.) There may or may not be one or more neutral or public trustees. The fund sets up machinery for collecting contributions from the employers and for keeping records of the employees on behalf of whom the contributions have been made. Benefits are usually provided through purchase of insurance or payments or services furnished directly from the fund.

These multiemployer types of programs are found mainly in industries marked by small or numerous employers such as are found in the construction, coal mining, men's and women's clothing, cleaning and dyeing, laundry, trucking, restaurant, small scale retail merchandising, and other service industries. Frequently these funds are established on an area basis. However, some teamsters' funds cover many States, and some funds, such as the United Mine Workers, are on a national scale.

4. WHOLLY UNION-ADMINISTERED PLAN

These plans are managed by a local or international union. Participation in the plan may or may not be required of the members. The income of the funds is chiefly derived from dues and assessments paid by the membership.[4] While plans of this sort are of long standing, they are at present relatively few and cover only small numbers of workers.

D. RELATIONSHIP TO GOVERNMENTAL INSURANCE PROGRAMS

Private welfare and pension plans have the same general objectives as the various social insurance programs developed by the Federal Government, the State governments, or the two acting in cooperation.

All private pension plans, in effect, are supplementary to the basic Federal old-age and survivors insurance system which now covers 51 million workers and in 1954 had total contributions of $7,750 million. Most of the private pension plans have developed since the Social Security Act was passed in 1937; they therefore evidence a desire for benefits which are more generous than those available under the governmental program. Many private pension plans provide benefits in the event of permanent and total disability, before normal retirement age; the Federal program presently does not.

[4] There are a few wholly union-administered programs with employer contributions. These are plans which were established by collective agreement prior to January 1, 1946, and which under sec. 302 (g) of the Labor Management Relations Act, 1947, are exempt from the requirement of that act for joint control of such funds by union and management.

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The past year, 1955, has seen the development of collectively bargained supplementary unemployment benefit plans, sometimes called the guaranteed annual wage. Such plans at the end of 1955 covered over 1 million workers. All of these plans, of course, are supplementary to the programs of unemployment compensation which the State governments, in cooperation with the Federal Government, have established and which cover approximately 37 million workers and entailed total contributions in 1954 of $1,440 million.

The total face value of group life insurance in force at the end of 1954 was $86 billion; it is estimated that the survivors benefits payable under the Federal OASI program are the equivalent of life insurance in force of $345 billion.

Temporary disability insurance, as distinguished from workmen's compensation insurance, is not provided by Federal statute except in a few instances, such as railroad retirement, maritime and certain phases of State unemployment insurance laws. Four States do require such insurance: Rhode Island has an exclusively publicly operated plan; California, New Jersey, and New York permit coverage through insurance companies, a State fund, or self-insurance. This has stimulated the growth of private disability insurance.

The vast private programs complement the Government programs. Both play a vital role in our national life. It is apparent, therefore, that legislation must assure the soundness and honest administration of private programs in the interest of the beneficiaries.

II. ABUSES AND PROBLEMS IN WELFARE AND PENSION PLANS

This section deals with the abuses, weaknesses and problems disclosed by the subcommittee's studies of employee welfare and pension programs. Part Two of this report, to which occasional reference is made, details some of their ramifications by case histories.

A discussion of abuses and problems might leave the impression with the reader that there is something wrong with every private welfare and pension plan. The subcommittee wishes emphatically to point out that this is not the case. Perhaps too little has been said of the many sound practices found in the great majority of these plans and of the conscientious and ingenious efforts on the part of industry, labor, insurance, and banking to bring benefits to scores of millions of employees at low cost. However, the subcommittee is convinced that without some legislative direction the abuses, problems, and weaknesses which do exist will not be self-correcting.

Labor, some time ago, condemned dishonesty, created committees on ethical practices, established codes of ethics for the operation of employee welfare and pension plans, and recommended legislation toward that end. These codes of ethical practices will, in time, undoubtedly have a salutary effect but their objectives will not be quickly achieved. In many instances, representatives of labor have been involved in some of the worst abuses found to exist and, in some cases, they have been found unprepared for the responsibilities of trusteeship under these programs.

The insurance industry, while opposing Federal control or supervision in any degree, has not even set up a code of ethical practices to condemn the unscrupulous. The insurance industry—both insurance companies and agents and brokers—in some cases has profited from public ignorance of how insurance operates. The insurance industry insists that there is no cause for Federal concern since it is already under State supervision. However, in most of the cases involving insured welfare plans where irregularities or abuses were discovered, a member of the insurance industry was involved. Keen competition in the group insurance field, while having many beneficial effects, has also bred sharp practices in many instances and to some extent has led to unequal treatment of policyholders.

Management shares the responsibility for many of the serious problems and abuses of employee welfare and pension plans. Under many of the management-administered insurance and pension plans, employee-beneficiaries are not furnished information as to the costs of the plan, how it is being managed, its stability, and, in the case of pension plans, their ability to meet long-range obligations. Employers in too many cases have abdicated their responsibilities under jointly managed plans. In some instances such abdication resulted from coercion. Management, as well as labor, has at times been unreasonable and unsound in positions taken with respect to benefit programs.

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The banking industry, while recognized as competently managing pension investments under corporate trusts, does not have the responsibility for actuarial soundness, often has too little control over proper investments, but sells the features of this type of plan without assuming all of the responsibilities which are necessarily inherent in a complete pension plan.

Whatever the problems, abuses or weaknesses, and regardless of who is responsible, the beneficiary stands to lose. Of course the employer also stands to lose. Whether it is a matter of inadequacies of existing law, corruption, bad investments, irregular insurance charges, or unsound practices, the result is an impairment to the stability and usefulness of this vast operation.

A. WELFARE PLANS

From the subcommittee's studies, it appears that in a large percentage of health and welfare plans, the financing consists of direct contributions from employees as well as employer contributions. Under collectively bargained welfare plans at least one-half of the cost is commonly covered by employer contributions. In voluntary plans outside of collective bargaining, the employer contributions are generally much less. By contrast, in pension plans it appears that most of the programs are financed solely by employer contributions.

The process by which moneys going into the financing of welfare programs may be irretrievably lost to the beneficiaries can best be understood by visualizing the operations of a conveyor belt. Employer and/or employee contributions are placed on and move along this belt through various stages to the end product: benefits provided beneficiaries under the programs. Sometimes all of the money is not placed on the belt. Sometimes it is dissipated or stolen in the process. Three and a half billion dollars pass along this belt annually. This attracts the services and attention of many people. There is, of course, no quarrel with the payment of honest and reasonable amounts for services properly rendered and for which proper accounting is made.

Unilateral employer-administered plans, union plans, and jointly managed plans in certain instances have some problems and abuses which, to an extent, are unique to the particular type of plan. Dishonesty or corruption cannot be held to be unique to any operation. However, the subcommittee discovered more irregularities in jointly managed or Taft-Hartley type plans than in unilateral employer plans and perhaps there is a higher incidence of abuse in this type of plan than in the larger number of employer-administered plans. It should also be stated, however, that much more time was given to the investigation of joint and multiemployer plans and that perhaps such plans lend themselves much more easily to the disclosure of abuses than the unilaterally administered plans.

Generally, irregularities and abusive practices will be discussed without regard to the particular type of plan and only those problems, abuses, or weaknesses which are peculiar to a particular type of plan will be treated separately.

1. PROBLEMS AND ABUSES PECULIAR TO THE TYPE OF PLAN

(A) UNILATERAL EMPLOYER-ADMINISTERED PLANS

Over 90 percent of all employees included in health and welfare programs are presently covered by this type of plan. While, at times, these plans are established or bargained on a cents-per-hour or percentage-of-payroll basis, or by specific amounts to be contributed respectively by the employees and the employer, a more typical arrangement is for the employees to pay a specified amount toward the costs of agreed-upon benefits, with management contributing the difference. This is called the level-of-benefits type of plan. If insurance costs go up, the employer's contribution goes up. If insurance costs go down, the employer's contribution declines also. In this type of plan, the employer usually receives any dividends or experience rating refunds paid by the insurance carrier.

It should be pointed out that in a substantial percentage of unilateral employer-administered plans the union has had a voice in the selection of the insurance carrier and in many instances participates through joint committees in the administration of employee benefit accounts or funds unilaterally established by employers. As shown in the study of the steel industry (sec. V, A), 18 of the 26 companies replying to a subcommittee questionnaire reported that the union had a voice in the selection of the carrier, either through negotiation with management or membership on joint insurance committees. Similarly, 13 of the 52 companies in the automobile and automotive parts industry responding to the questionnaire indicated that unions participated in selecting the insurance company (sec. V, B). Of the 1,596 policies issued by commercial carriers to jointly managed funds, unions, or employers where the union had a voice in selecting the carrier, the subcommittee found that 231 were issued to employers (sec. IX). Undoubtedly the proportion of policies held by employers where the union shares in the selection of the carrier is even greater than indicated since insurance companies would not be aware of all such cases.

(1) Employers' position as to disclosing costs

Management has been found to be most reluctant to disclose its portion of the costs in the level-of-benefits employer-administered type of plan. Its arguments are (*a*) that if its costs are revealed, the unions may make greater demands at the next bargaining session; (*b*) that as management is guaranteeing a specified program of benefits (the end product), with costs varying from year to year, regardless of the cost over and above employee contributions, it is no concern to the employees what these costs are; (*c*) that arrangements with insurance carriers are items of cost which neither management nor the insurance companies want to expose to the public or advertise to competitors; (*d*) that in programs bargained on a level-of-benefits basis with fixed employee contributions, particularly where there is more than one union involved, disclosure will result in employee unrest and dissatisfaction.

Labor contends (*a*) that management's reluctance to disclose its share of the costs is because it is doing the job cheaper than it will admit and wants to hide its costs; (*b*) that problems involved in a plan with more than one union are no different on a level-of-benefits

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basis than on a cents-per-hour basis, where the cost is known; (*c*) that abusive insurance practices have demonstrated a real need for making available to all concerned the details of the cost of group insurance; and (*d*) that there is no greater guaranty of honesty in a unilateral company-administered plan than there is in a jointly administered or union-administered plan.

These arguments are the crux of the issues with respect to the disclosure of details on this type of plan. These issues involve: What effect will disclosure legislation have on collective bargaining? Will a mandatory disclosure statute enable unions to get access to information which, as yet, they have not been singularly successful in securing except on a case-by-case basis through National Labor Relations Board channels, and, if so, will this have harmful effects?

The subcommittee is naturally less concerned with the effect disclosure may have upon either management or unions that it is with the salutary effect it will have in increased protection for the beneficiaries. It appears to the subcommittee that management, in arguing that its costs in guaranteeing given insurance benefits are its own business under a level-of-benefits type of plan, loses sight of the fact that its expenditures in providing these benefits are as much a part of the employees' compensation for employment as if they were on a cents-per-hour or percentage-of-payroll basis. Certainly a real distinction can be made between plans where the employer contributes specified amounts toward employee benefits and plans where the employer guarantees the cost of the plan above specified contributions of employees. This distinction, however, would not appear to change the whole character of the employers' costs or contributions.

Management's costs for benefits under both welfare and pension programs have been treated by Congress and the courts as part of employees' compensation. In 1948 the National Labor Relations Board ruled in the Inland Steel case that the Labor Management Relations Act, 1947, required employers to bargain on company pension plans if the employees requested it. The language of the Board was in part as follows: "The term wages as used in section 9 (a) must be construed to include emoluments of value like pension and insurance benefits." [5] The company appealed but the circuit court upheld the Board's decision.[6] The Supreme Court denied certiorari.[7]

Later, in the case of *W. W. Cross & Co., Inc.* v. *N. L. R. B.* (174 Fed. 2d 875) the court, in upholding an NLRB ruling, stated:

> * * * Indeed we narrow the question still further, for believing a group insurance program to fall within the scope of the word "wages" as used in the act (National Labor Relations Act of 1947) we see no need to consider, and therefore explicitly pass, the question whether such a program could also be included within the scope of the phrase "other conditions of employment."

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[5] 77 NLRB 1.

[6] *Inland Steel Co.* v. *NLRB*, 170 Fed. 2d 247, 251 (1949). Here the court stated, "* * * While as the company has demonstrated, a reasonable argument can be made that the benefits flowing from such a plan are not wages, we think the better and more logical argument is on the other side, and certainly there is, in our opinion, no sound basis for an argument that such a plan is not clearly included in the phrase, 'other conditions of employment.'"

[7] 336 U. S. 960 (1949).

When the Defense Production Act was enacted in 1950 it contained provisions empowering the President to issue regulations stabilizing "wages, salaries, and other compensation." These words were defined in the act to include "all forms of remuneration to employees by their employers for personal services including, but not limited to, * * * employer contributions to or payments of insurance or welfare benefits, employer contributions to a pension fund or annuity * * *."[8]

The Internal Revenue Code of 1954 under itemized tax deductions for trade and business expenses of individuals and corporations permits (sec. 162 (a) (1)) "a reasonable allowance for salaries or other compensation for personal services actually rendered." It is understood from officials of Internal Revenue that it is on the basis of section 162 (a) (1) that deductions from gross income in the computation of taxes are allowed employers for contributions to or payments of employee group insurance or other welfare benefits. Under subchapter D of the Internal Revenue Code of 1954 entitled "Deferred Compensation, etc.," section 404 provides that—

> If contributions are paid by an employer to or under a stock bonus, pension, profit-sharing, or annuity plan, or if compensation is paid or accrued on account of any employee under a plan deferring the receipt of such compensation, such contributions or compensation shall not be deductible under section 162 * * * or section 212 * * * but if they satisfy the conditions of either of such sections, they shall be deductible under this section, subject, however, to the following limitations as to the amounts deductible in any year. * * *

In addition the United States Chamber of Commerce in its various studies of costs of fringe benefits converts them to an hourly wage cost. The United States Department of Labor, in its studies of wages, has for years compiled data on group insurance in its tabulation of supplemental wage practices.

It therefore would appear that there is much to support the contention that employer contributions to or payments for employee welfare or pension plans are included in the term "other compensation." It logically follows that the employees have a direct claim to information regarding the costs of such programs.

Even though employees had agreed to contribute specific amounts toward a program of guaranteed benefits with management contributing the balance of the total cost, it does not follow that in doing so they forfeited their right to know the costs of the benefits and the disposition of reserves or dividends.

The General Motors welfare program.—While a number of unilaterally administered level-of-benefits plans were studied, time permitted a detailed examination of only one, namely, that of the General Motors Corp. Since this plan is set forth in detail in section VI, A of this report, only the handling of reserves and the lack of disclosure of the details of the financial operation will be dealt with here.

Estimates made by the subcommittee staff based on data supplied by General Motors indicate that prior to 1950, the General Motors

[8] Ch. 932, Public Law 774, 81st Cong., 2d sess., secs. 402 (b) (1) and 702 (e).

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hourly rate employees paid 43 percent of the cost of the GM-Metropolitan Life group insurance plan, the salaried employees paid 35 percent, and the corporation paid 22 percent. Application of a 42.7 percent factor (the proportion of total net cost represented by hourly rate contributions) to the $8.7 million in extended life insurance and rate reduction reserves in effect on August 31, 1950, produces an amount of $3,665,000. However, in 1950, when the hourly rate employees went under a collectively bargained plan, these as well as other reserves accumulated under the General Motors policy for salaried and hourly rate employees were left with the salaried group.

General Motors justifies this action on the basis that, since the employees were paying a specified amount toward benefits and the corporation was paying the balance of the cost, any reserves accumulated came from General Motors' share and should be treated as General Motors funds. However, General Motors deducted from taxable income the entire cost of its share of the program as part of its employees' compensation under section 162 (a) (1) of the Internal Revenue Code.

It was testified at the subcommittee's hearings that, by amendment to the General Motors-Metropolitan policy, reserves left with the salaried group could be used by the hourly group if needed. The facts reveal, however, that there was never any need for such use. Significantly, in 1952, a cash dividend in excess of $3 million was paid to the corporation on the salaried portion of the risk, over $2 million of which came from reductions in the old age extended insurance and rate reduction reserves which had become disproportionately large for the salaried group as a result of the hourly reserves being left with that group.

In 1950, new reserves were started for the hourly rate group and by December 1954 $10 million in old age extended insurance and $5 million in rate reduction reserves had been accumulated. Between 1950 and 1954, the division of total costs, percentage-wise, for this plan, including reserves, was as follows:

	Percent
Hourly:	
General Motors' share	43.1
Employees' share	56.9
Salaried:	
General Motors' share	23
Employees' share	77

As of December 1954, the Metropolitan Life Insurance Co. held $33 million in reserves which had been accumulated from premiums jointly contributed by both employees and management. A large part of these reserves would be released by the Metropolitan and returned to General Motors if the policy provisions included for the additional protection of the older employees or other arrangements were to be canceled. The employees have no right to these reserves. These facts were unknown to the employees of General Motors until they came out at the subcommittee's public hearing on November 29, 1955.

Under present law and court decisions the subcommittee concludes that General Motors' contributions to this program are in the nature of compensation to its employees and therefore their interest in these funds (both their direct contributions and those of the corporation) dictates their right to know what the insurance costs are, how the policy is managed and what reserves are behind the policy. The

subcommittee believes that General Motors' withholding of the details on the financing of the insurance plan from its employees is a serious defect in an otherwise good program.

(B) UNION-ADMINISTERED PLANS

This type of plan comprises a very small minority of all plans and no detailed investigation was made. Several programs were encountered, however, in which unions had taken over all administration in apparent violation of the joint management requirements of the Taft-Hartley Act. In addition to violations of the act where employer contributions went to union plans which had no jointly managed trust, the subcommittee found cases where there were commingling of union and welfare funds, use of funds for other than welfare purposes, favoritism in the payment of claims, extravagances, mismanagement, and one-man domination.

In what was formerly the UAW–AFL Amalgamated Local 286, Chicago, Ill., the union president, Angelo Inciso, insisted that the thirty-odd employers in the plan pay their insurance contributions as union dues (see sec. VII, A). (As of April 1, 1956, Angelo Inciso ceased to be an officer or member of the international union and, similarly, Local No. 286 was no longer affiliated with this international union.) This was an obvious circumvention of the Taft-Hartley provisions. The welfare plan was wholly union controlled. There was a complete commingling of moneys used for insurance and union operation, including dividends (approximately $30,000) from the insurance. Inciso gained control of a small insurance company, switched the group policy to that company and managed its affairs without regard to regulation and sound insurance practices. He used the commingled funds for lavish gifts, luxury trips to resorts and abroad, and withdrew large sums for which he made no accounting. No adequate records were kept, no audits were conducted, and no proper accounting was made to the union members.

In the Pointers, Cleaners, and Caulkers Local 52 welfare fund, Chicago, Ill., a similar pattern emerged. There was a disregard for the provisions of the Taft-Hartley Act. There was no written collective bargaining agreement, no trust agreement setting up the welfare plan, and the welfare fund was entirely controlled and managed by James Gallagher, head of the union. However, testimony disclosed that management had made persistent efforts to secure such a trust agreement and failed because of lack of cooperation on the part of union officers. As the contributions flowed in they were siphoned off into a union fund and used for miscellaneous purposes, including unaccounted for large cash withdrawals. The plan was self-insured but no benefits were specified and those paid consisted of handouts at Gallagher's discretion, without any adequate accounting.

An examination was made of two so-called union welfare plans of locals of the United Association of Journeymen, Plumbers, and Apprentices of the Plumbing and Pipefitting Industries, Local 102, Knoxville, Tenn., and Local 211, Houston, Tex.[9]

In the Knoxville plan $2 weekly payments were required from all union members working in that area, who were not members of local 102, for an alleged "welfare fund." According to union records,

[9] See sec. VII, H, p. 286 infra.

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$129,000 was collected for this purpose but the local's officials admitted that not one cent of welfare benefits was paid from these funds.

In the Houston plan a similar practice was engaged in; weekly payments were collected from union members who were not members of this local. According to union records, $95,000 was collected, approximately $37,500 was paid out in benefits and the remainder was used for union business. The benefits paid in the Houston plan were to members of the local only, although the collections came exclusively from nonmembers of the local.

(C) JOINTLY ADMINISTERED AND MULTIEMPLOYER PLANS

The contributions for benefits in jointly administered single or multiemployer plans set up in conformance with the provisions of the Labor Management Relations Act, 1947, flow into a trust fund from which either premiums for insurance benefits are paid or the benefits are provided through self-insurance. Many abuses and problems have been found in this type of plan. A great deal of this subcommittee's and other Federal and State governmental committees' attention has been given to this type of plan, which covers less than 10 percent of employees receiving group benefits under all types of plans.

Reported scandals in these jointly administered plans first focused attention on the lack of control surrounding the employee welfare program administration. Frequently, a characteristic weakness of this type of plan, particularly in the multiemployer plan, is diffusion of responsibility. Employers typically agree to contribute on a cents-per-hour or percentage-of-payroll basis and then too often take the position that their responsibility is ended, which permits unscrupulous trustees and others to control the fund.

This type of plan in conformity with requirements of the Labor Management Relations Act, 1947, must have an equal number of employer and employee trustees. Theoretically, this should give a balance of control between management and labor. It is probably, in part, because of this joint representation that wrongdoing has been brought to light in many cases, since in the unilateral plan the administrator himself is the only source of complaint.

Some excellently operated jointly managed multiemployer plans have been reviewed by the subcommittee. Where there is conscientious, reasonable, and intelligent application to the administration of such plans, both by employer and employee representatives, the operation has been found to be exemplary.

(1) Malfeasance and nonfeasance

Many of the abuses in welfare funds have at their source the failure of trustees to be true to their trust. Union trustees have often used their trusteeships to serve personal gain. Employer trustees have sometimes connived with union trustees in such instances and at other times have closed their eyes. It was frequently found that employer trustees of joint funds completely abdicated their responsibilities. The subcommittee found instances of plans in which there had not been a meeting of the trustees for several years. In some instances, employer representatives took no interest whatever in the operation of the fund. In others, employer representatives designedly gave full control to the union in the hope that the union would eventually be discredited.

On the other hand, employer representatives in some cases were subjected to coercion.

The LWIU welfare fund case presents a good example of nonfeasance on the part of trustees. Though the trustees in that case did not engage in all of the practices criticized in the paragraph above, they at least were remiss in certain of their responsibilities to the detriment of the beneficiaries of the fund. They appointed a broker as their agent to handle insurance premiums without making arrangements to review his activities; the broker subsequently embezzled some $900,000 of these premiums, part of which was kicked back to an official of the Laundry Workers International Union. They permitted moneys secured through a discount in premium to be paid to welfare deputies appointed by the union without requiring any accounting for the expenditures by these deputies. Though they had certified public accountants to audit the fund, they did not see that a reconciliation was made with the insurance company. This case is discussed at length in the subcommittee's July 20, 1955, interim report.

(*2*) *Employer failure to make contributions*

Another problem which has arisen in the multiemployer jointly managed type of plan is the failure of some employers to make their agreed-upon contributions. The United Mine Workers report that they generally have about 30 suits pending to collect delinquent payments and that as of August 1954, they were suing some 15 delinquent coal operators to collect over $300,000 due in royalty payments. In a Philadelphia fund reviewed by the staff, 75 percent of 140 employers were more than 2 months delinquent in their contributions.

(*3*) *Favored treatment to certain employers*

An offspring of the delinquent-payment problem is favored treatment of contributing employers. The examination of a Pennsylvania multiemployer welfare fund showed that some employers made no contributions. The fund records showed that more than 100 (or over 20 percent) of the contributing employers were delinquent in payments. In some plans examined there were indications that the business agents of the union may have made off-the-record settlements with the delinquent employers. This is a serious abuse.

2. PROBLEMS AND ABUSES INCIDENT TO THE PROCUREMENT OF INSURANCE

Even when welfare-plan contributions escape abuse at the source, and are placed on the conveyor belt as welfare plan insurance premium payments, investigation has amply demonstrated that, under the lack of existing controls, they are still vulnerable to dissipation and abusive practices.

Practically all welfare plans provide their benefits through the medium of insurance, and investigation has revealed that abuses and problems in welfare plan and fund administration sometimes arise in connection with the procurement of that insurance.

The insurance industry in the United States has been a tremendous influence in spreading economic security and has made it possible for employers to voluntarily supplement the Government's social-security system through group insurance. On the whole it is a highly efficient though complex industry, but its growth and interstate character in

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the group field have made the opportunity for abuse great because State controls are inadequate.

Before a discussion of the problems and abuses incident to the procurement of insurance, it is believed that a short discussion of some of the salient characteristics will be helpful.

(A) HOW GROUP INSURANCE WORKS [10]

Although group insurance is sold by several hundred companies, the 10 largest companies probably write 85 percent of the business. Competition among them is intense.

The important characteristics of group insurance are: (1) with rare exceptions the agency system of distribution is used—as it is for other types of insurance; and (2) the claims experience of a given policy is the main factor controlling its costs, that is, each group is subject to experience rating.

For convenience, the following discussion will deal first, with the companies' relations with their agents and brokers; and second, with their relations with their policyholders.

It should be pointed out that the majority of the companies writing by far the greater percentage of group insurance are licensed to do business in the State of New York and, therefore, must comply with the laws and regulations of the department of insurance of that State. Therefore, when reference is made in this discussion to State requirements, the subcommittee principally has in mind those of the State of New York.

(1) The agency system

Typically, an insurance company obtains its business through general agents who, in turn, obtain most of their business through soliciting agents and brokers. In this kind of an arrangement, the company sometimes has little or no contact with the policyholder. Because of the technical nature of group insurance, the companies maintain special group departments, branch offices and field representatives to assist agents and brokers to obtain and retain business. Home and branch office personnel and field representatives are salaried company employees. Agents and brokers are paid commissions.

Commissions vary with the different companies. Typically, commissions are paid for 10 years provided the policy remains on the books. In addition, arrangements are frequently made for the continuance of commissions beyond this period as long as the policy remains in force. Generally there are two types of commissions: A large first-year commission, followed by smaller renewal commissions; or a smaller flat commission payable at the same rate—first year and renewal—calculated to produce the same amounts over a 10-year period. Again, typically, commission schedules are on a decremental scale, the rate becoming smaller as the amount of premium increases. For example, a frequently used scale calls for first-year commissions of 20 percent of the first $5,000 of billed premium graded downward to 15 percent on the next $5,000 and so on down to one-half of 1 percent, and less, on amounts in excess of $500,000. It is on policies carrying yearly premiums of less than $50,000 that such com-

[10] The following discussion is limited to the manner in which commercial insurance carriers operate. Blue Cross and Blue Shield organizations function in an entirely different manner. No examination was made of their operations in connection with this study.

mission scales result in a material part of the premium dollar being paid to the broker. Renewal commissions are at 5 percent on the first $1,000 of billed premium, 3 percent on the next $4,000 and graded downward to one-half of 1 percent, and less, on amounts in excess of $500,000. General agents receive an overriding commission on business placed through them by brokers. Some State insurance departments, as in New York, require the filing of commission schedules. Further some require that a commission must be charged on every case whether or not one was paid. Failure to do so is considered a form of rebating or discrimination and outlawed as such. The amount saved by not paying such commissions serves to reduce the insurance companies' overhead charges to all similar policyholders.

Administration of the group insurance business is such that carriers often enter into arrangements with agents or brokers or policyholders to perform much of the recordkeeping, accounting, issuance of certificates to the employees, claims handling, etc. When these functions are performed by an agent or broker, he is paid an administration or service fee by the company. When the policyholder does the job, he is given an administration allowance or premium discount. A few companies have arrangements with their most productive agents whereby the latter conduct virtually all the transactions with the policyholders. The agents bill their policyholders and remit net to the company.

(2) *Premium rates and experience rating*

The cost of group insurance to the policyholder is vitally affected by the claims experience of the group insured.

For the first year, the premium rate for life insurance is computed on the basis of the commissioners standard ordinary rate which is the same for all companies. For the other coverages, each company files with the State insurance department its own manual rate to which it is supposed to adhere. For second and subsequent years, the company generally varies the rate in accordance with the claims experience of the group. It may increase the premium rate if the ratio of claims incurred to billed premium is dangerously high; or it may reduce it if the experience is good. Sometimes fluctuating experience is met by an adjustment in the form of a dividend (if a mutual company) or an experience rating refund or retroactive rate reduction (if a stock company). The amount of this adjustment is computed in accordance with a retention formula, "retention" being defined as the "difference between the billed premium and the total of claims incurred and dividends." This retention is intended to cover commissions and other costs of obtaining the business, all administration costs, risk charges, taxes, reserves, and a surplus (or profit, in the case of a stock company). To the policyholder "retention" represents the amount of premium returned as claim payments plus that retained by the insurance carrier.

Significance of insurance practices.—The subcommittee has found that the procedures sketched above make irregularities possible. In short, to the extent that an insurance company's practices are flexible it makes available moneys that find their way to individuals who perform little or no service but who are in a position to swing the business. All of this adds to the cost of the insurance, affects the amount of the protection that can be afforded to the employees in whose interest the insurance has been obtained and the economic security of these employees.

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Moreover, even when irregularities do not take place, group insurance is so complex and technical that policyholders who are not as sophisticated as others, or who do not have the benefit of expert advice, may be buying insurance at higher net cost than those who are more knowledgeable or better served. It has been pointed out that some insurance carriers do not treat all policyholders alike (see sec. VII).

One more point need be made. The importance of New York State as an industrial, commercial, and financial center makes it an ideal market for group insurance. Most companies want to do business in that State. The New York State Department of Insurance requires that insurance companies, wherever located, must conduct their entire business in accordance with New York State regulations if they want to do business in New York.

(B) LIMITATIONS OF INVESTIGATION OF INSURANCE PRACTICES

In the fall of 1954, the subcommittee sent questionnaires to all commercial insurance carriers doing group business. It confined its requests to group insurance issued to welfare funds and to other entities under arrangements whereby a trade union had a voice in the selection of the insurance carrier. On the basis of these questionnaires, the subcommittee found that certain companies had paid relatively higher commissions and service fees, and had enjoyed relatively higher retentions on the cases they reported (see schedules, sec. IX).

In view of the extremely large number of employer-administered insured plans (over 70,000), the subcommittee did not find it practical to ask insurance companies to furnish reports on such plans.

Irregular insurance practices were encountered in a high percentage of cases investigated by the subcommittee and field studies of these practices at the insurance company level were initiated last October. Rather intensive inquiries were made of two medium-sized companies which fully cooperated with the subcommittee staff. There is no reason to believe that the numerous questionable practices found to exist there in the handling of welfare plan group policies are peculiar to these companies. The indications were quite to the contrary and officials of the two companies testified that many of the practices were common throughout the industry. Inquiries at eight other companies reflected similar questionable and unusual practices. In some cases, these practices included special arrangements with favored brokers to pay extra commissions contingent upon favorable claims experience without the policyholder's knowledge, the effect being to reduce dividends; the payment of high flat commissions or a combination of commissions and administrative fees amounting to excessive payments; payment of administrative fees to persons who performed no services; inconsistent treatment of policyholders; witholding dividends earned, and charging excessive retentions despite good experience.

The subcommittee studies at the insurance company level in no way represent a comprehensive survey of the industry as a whole and no assumption is made that the entire industry engages in all the practices described. In fact the subcommittee believes that such practices are not engaged in my many companies. However, the practices uncovered, regardless of their extensiveness, are considered so

serious that if no action is taken by way of Federal disclosure legislation, the subcommittee feels that investigation in this area should continue.

(C) HIGH COMMISSIONS

Computing commissions on separate coverages.—The first interim report of this subcommittee discussed the manner in which commission schedules operate. That report points out that insurance carriers to varying degrees calculate commissions by applying the schedule to the premium on the coverages (type of benefit) separately rather than on the entire package. The effect of this practice is to increase materially the amount of the commissions payable on a particular case. The first interim report illustrates how on a case involving $25,000 of annual premium, the commission schedule of 20 percent and 5 percent graded when applied to the $25,000 would result in a first year commission of $3,500 (14 percent) and renewal commissions of $470 (1.9 percent) whereas if applied on the same amount divided evenly among the different coverages, the first year commission would be $4,719 (18.9 percent) and the renewal commissions $791 (3.2 percent).

This practice is found throughout the insurance industry and is indulged in by large as well as small carriers. For example, the Aetna Life Insurance Co., second largest group insurance carrier in the country, in reporting information requested by the subcommittee in 1954, set out the following with respect to commissions to agents and brokers:

> Commissions on group policies in general: Group life, group accidental death and dismemberment, group disability, group hospitalization (including group surgical, etc.), and group major medical coverages, whether issued through a separate policy or through a rider to a policy, will each be considered as a separate policy for commission purposes.
>
> Commissions on such policies will normally be computed by applying the commission rates indicated in either of the foregoing commission schedules to the premiums developed by the policy.

The "foregoing" commission schedules consisted of two decremental scales, one providing high first year and lower renewal year commissions decreasing in ratio to increased premium volume. The other provided lower, flat commissions for both first and renewal year premiums. It is understood that Aetna and most other companies will combine the coverages for commission purposes upon request by the policyholder.

Some carriers combine the premiums on fewer different types of coverages than others. Many companies figure commissions on 2 groups of coverage (life and casualty) but some companies figure commissions on as many as 5 different types of coverage. This manner of computing commissions, of course, is used regardless of the type of policyholder.

Setting up special commission schedules.—Certain insurance carriers set up special commission schedules to accommodate various brokers. Examples of this are the special commission arrangements entered into between the Security Mutual Life Insurance Co. and

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Louis B. Saperstein; the Washington National Insurance Co. and the firm of Dash & Love, and the broker Harry D. Epstein; the Continental Assurance Co. and the firm of C. J. Simons Corp.; and the commission scales of the Mutual Benefit Health and Accident Association of Omaha.

It may be pointed out that, in the aggregate, commissions paid on 1,596 cases in force in 1952 reported by 70 carriers amounted to 3.4 percent of billed premiums.

In 1950, Louis B. Saperstein approached the Security Mutual Life Insurance Co. to underwrite a group insurance plan for the Laundry Workers International Union welfare fund if it would pay him his "regular" commission. He had life contracts with this company to receive a flat 10-percent first year renewal commission on all group business produced. The record shows that from April 1, 1950, to September 30, 1953, this broker received flat annual commissions of 10 percent on this case, or a total of some $262,500, on total premiums of $2,364,709.57, or approximately $700,000 annually. Under a typical decremental scale he would have received approximately $8,500 the first year and renewal commissions of about $3,850, or a total of approximately $18,125 for the 3-year period. In the case of this broker, the company established a commission scale acceptable to him in order to get his business. In 1953, when the company, after conferring with the New York State Insurance Department, informed Saperstein that it would have to reduce the commission, the insurance was shifted to another insurance company. Saperstein, as broker of record, received a commission of 6 percent plus an overriding commission of 2.5 percent as general agent of the new company. With respect to Saperstein's arrangements with Security Mutual, it should be noted that his contact within that company was primarily H. B. Wickes, vice president in charge of group operations. The subcommittee in its interim report of July 20, 1955, described the activities of Wickes in this case as subject to serious question, and stated that he unquestionably utilized his position with Security Mutual and his knowledge of the LWIU case to his own personal advantage.

An example of how an insurance company may have utilized excessive commissions to break into the group insurance field is that of the Mutual Benefit Health & Accident Association and Companion Life Insurance Co. (its affiliate). Mutual's annual group premium receipts increased from $2 million in 1952 to $12,600,000 in 1954. In the latter part of 1954 its commission scales provided as much as 30 percent graded the first year and 7 percent graded renewals—far in excess of the typical commission schedule.

Contingent commissions.—In addition to regular commissions, special arrangements were entered into by the Washington National Insurance Co. and the Continental Assurance Co. to pay extra commissions to certain brokers which were contingent upon the claims experience of the policies these brokers handled. In these cases, the lower the claims, the greater the extra commission. This practice certainly does not serve the best interests of the policyholders and beneficiaries. It is a built-in incentive to hold down claims which can result in denying just benefits to the beneficiaries in whose behalf the insurance has been issued. It is especially difficult to condone when, as in these cases, the policyholders were not aware of its existence.

The Washington National Insurance Co. paid the extra commissions, which it deducted from the policyholders' dividends, to two brokers, Dash & Love and Harry D. Epstein. This contingent commission amounted to 10 percent of earned premium on each of the group policies on which they were listed as broker of record and which developed a favorable claims experience. According to company figures, payments made to Dash & Love since 1952, and to Harry D. Epstein since 1951, are as follows:

Item	Dash & Love		Harry D. Epstein	
	Amount	Percent	Amount	Percent
Premiums	$481,201	100.0	$510,505	100.0
Total commission	65,008	13.5	61,151	12.0
Regular commission	42,560	8.8	48,414	9.5
Contingent commission	22,448	4.7	13,737	2.5

With respect to Harry D. Epstein, the company had an additional arrangement to assure him adequate compensation for his work in the handling of claims. It set up a "special claims account" of $4,200 per year against which he could draw $350 monthly. If the 10 percent contingency commissions should fail to yield $4,200 in any 1 year, the company would make up the difference.

The effect of the contingency commission arrangement is to reduce the experience rating refunds payable to the policyholders. This is strikingly illustrated in the case of the Boot and Shoe Workers Union group insurance plans where the extra commissions paid to Dash & Love during the 3 policy years ending in 1952, 1953 and 1954 were several times the dividends paid the policyholders. The dividends in each of 3 policy years were divided as follows:

Policy year	Total	To Dash & Love	To policyholder
Dec. 1, 1951–Nov. 30, 1952	$15,649	$6,322	$9,327
Dec. 1, 1952–Nov. 30, 1953	8,021	6,982	1,039
Dec. 1, 1953–Nov. 30, 1954	6,202	5,000	1,202

The experience on certain other policies was such that Dash & Love received extra commissions, while the policyholders received no dividends.

The extra commissions were payable on all policies—whether issued to a welfare fund, a union, or to an individual employer. In the case of Amalgamated Local 195 of the Meat Cutters and Butcher Workmen's Union, 3 policies were issued to the union and 5 to individual employers.

The testimony with respect to these two brokers makes it clear that neither the union nor the policyholders knew of these arrangements. One of these employers stated that he never heard of Dash & Love; that to his knowledge there was no broker on the case; and that all his dealings had been with the insurance company's field representative. Another stated that he had never seen either Dash or Love.

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Similar assertions regarding commissions were made by union officials and employers in the Boot and Shoe welfare plans, where the policies were issued jointly to the union and the individual employers.

In another case involving the plan of the Torsion Balance Co., Clifton, N. J., a company official indicated that he had no knowledge of the fact that extra commissions were paid to Harry D. Epstein and deducted from the dividend that his company would otherwise receive.

The Continental Assurance Co. entered into an arrangement with the C. J. Simons Corporation of Newark, N. J., its general agent, whereby the company agreed to pay the corporation an annual "contingency bonus" or extra commission of from 2 to 10 percent of billed premiums depending on the claims experience on its entire business. The premium volume ranged between 2 and 3 million dollars per year. During the period 1951–55, the C. J. Simons Corp.'s contingency bonus alone totaled $208,000. Again, this applied to any policy whether issued to a union, a welfare fund, or an employer policyholder.

There are numerous instances involving high commission arrangements which clearly gouge welfare-plan beneficiaries. It is seriously questionable whether such arrangements are necessary. Group insurance is bought and not sold in many cases. Too often it was found that most, if not all, of the administrative work connected with the insurance phase of welfare plans was performed by salaried personnel of the carrier while the producer (agent or broker) reaped the benefit of excess commissions and fees simply for having obtained the business.

(D) SERVICE AND ADMINISTRATION FEES

The nature of group insurance makes it practical, where a reasonably large group is involved, for the insurance carrier to delegate certain administrative functions to the policyholder. These generally include issuance of certificates to the employees, accounting of monthly premiums due the carrier, determination of eligibility for coverage and even payment of claims. Generally, a policyholder is given a premium discount (typically, of 1 to 3 percent) or additional dividend for performing these functions. The subcommittee's studies show that with respect to policies in force in 1952, 27 of 43 companies with a substantial volume of business paid service fees. Eleven companies paid fees of 2 percent or more of billed premiums.

However, many instances were found in which liberal service fees were paid not only to agents and policyholders but also to other persons who performed little or no service. In effect, these fees when paid to an agent are additional commissions. When paid to a third party, they verge on kickbacks, rebates, or commissions to an unlicensed agent.

Testimony before the subcommittee revealed many instances in which agents received unduly high service fees under circumstances that raise grave doubts as to the extent to which they were earned. For example, Eastern Casualty Co. paid the Cardinal Agency 7.5 percent until 1953 when the amount was reduced to 3 percent. This was in addition to 15 percent flat commissions on first year and renewal premiums. It paid the Alcor Agency 5 percent in addition to flat commissions of 12.5 percent. An official of the company testified that the fees were paid as compensation for administrative functions such as billing and claims processing.

The Mutual Benefit Health & Accident Association (Mutual of Omaha) combined various decremental commission schedules with incremental service fees which in effect resulted in a flat rather than a graded yield to the agents or brokers. As its volume of business increased, it gradually adjusted its commission and fee agreements with its agents. At present the company pays the standard graded 20 percent first year and 5 percent renewal commissions on new business. Service fees are at a level 3 or 4 percent. An example of how the earlier incremental service fee schedule worked is illustrated in the joint welfare fund of the International Union of Operating Engineers, Locals 14 and 15. In this case, according to an administration contract entered into April 30, 1952, between Mutual and the agent, Alphonse C. Corcillo, no first year fee was paid on the first $20,000 of premium, but the fee then ranged from 5 percent on the next $10,000 of premium up to 14.9 percent on all in excess of $500,000. Renewal fees rose from 10 percent on the first $10,000 of premium to 14.9 percent on all in excess of $500,000. The use of an incremental scale for computing commissions and fees is contrary to general practice. Under this arrangement, Corcillo received combined commissions and service fees of 16.2 percent and 15.7 percent during policy years 1952–53 and 1953–54, respectively, on gross premiums totaling about $187,000 in 1952–53, and about $185,000 in 1953–54. As of April 1, 1954, Mutual initiated a policy of reducing service-fee payments to a flat 4 percent with the result that, in this particular case, combined commissions and service fees amounted to only 6.4 percent of gross premium of a little over $303,000.

In another case, Local 445 of the International Brotherhood of Teamsters welfare fund, Victor D. Levitt, Jr., the broker for Mutual Benefit Health & Accident Association, was paid in addition to the regular and overriding commission, first-year service fees of 10 percent on the first $1,000, graded down to 5 percent on all in excess of $50,000, and on renewals 5 percent on the first $1,000 graded up to 9 percent on all in excess of $50,000. Companion Life, which carried the life insurance, paid the regular commissions plus a flat service fee of 6.5 percent for first year and renewal. Thus, this broker received combined renewal fees and commissions amounting to a flat 10 percent.

Many other instances were found where fees, as distinguished from commissions, were paid to agents. Among them were the administration fees of 4 percent paid by the Continental Assurance Co. to the C. J. Simons Corp. This, in spite of the fact that the agency was receiving a contingency bonus in addition to its regular commissions.

A novel arrangement was entered into by Dash & Love, the broker in the case, and Michael Tesoro, eastern representative of the boot and shoe workers union, in the welfare plans of that union carried by Washington National. In this situation, Dash & Love agreed to handle the union's insurance details in return for one-half of the dividends received by the union. In this case, the agents were already receiving extra commissions which were deducted from the policyholder's dividends. Thus they received, in addition, one-half of the dividends remaining payable to the policyholders.

The subcommittee is firmly convinced that such practices are wholly unreasonable and unwarranted. They represent an unnecessarily high charge against the beneficiaries, increase the net cost of insurance and

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reduce the amount of money available for benefits to employees. There is no logical reason or justification for thus increasing the size of the payments to agents and brokers.

Policyholders and third-party fees.—Even more questionable is the payment of administration fees to certain policyholders or to other third parties who are in a position to swing the business but whose part in the administration of the plans is difficult to define. The most glaring example involves the Laundry Workers International Union welfare fund policy with the Security Mutual Life Insurance Co. Testimony showed that the company paid $85,000 to E. C. James, as acting secretary-treasurer of the union, from September 1951 to October 1953, at the rate of $2,500 monthly, allegedly for expenses incurred by the union in promoting its welfare plan. In addition, the company had agreed, in October 1950, to allow a 5-percent premium deduction to the fund to take care of administrative costs in processing and screening the claims.

The 5 per cent was allowed, allegedly because the company did not have the field staff necessary to service this nationwide fund. The trustees of the fund agreed that welfare deputies be appointed in each section of the country where the plan operated. Thus, by March 1955, 33 such deputies were appointed. They were paid 5 percent of the premiums paid on behalf of the members of the locals for which they were deputies. For example, James, as welfare deputy for Local 46 (Chicago) received almost $78,000 from October 1, 1950, through September 30, 1954. Appearing before the subcommittee on March 29, 1955, James refused to tell how he handled this money on the ground that his answer might incriminate him. An interesting fact, in this connection, is that one of the welfare deputies, Sidney Brennan, was not a member of the Laundry Workers International Union but was a vice president of the Brotherhood of Teamsters. He received almost $12,000 from 1952 through 1954.

The overloading of such costs to the premium is illustrative of both the insurance company's and the union and management trustees' disregard of the interest of the employees.

An unusual arrangement was uncovered by the subcommittee in which Mutual of Omaha insured some 3,600 members of 4 locals of the Mine, Mill and Smelter Workers Union employed by the Anaconda Copper Co. In this case, the company sought to reduce the commission of the regular agents in the case because it had agreed to pay a service fee to the union's insurance consultant, Paul Pinsky of San Francisco. From the facts available on this case, it is entirely possible that the service fees were nothing more than an inducement to retain the business.

In the cases in which Harry D. Epstein was broker, a pattern of 5 percent administration fees paid to union officials was developed. Washington National loaded the insurance premium by 5 percent to produce these fees. An insurance company official testified that these individuals contacted union members to explain the insurance program to them. The company also took the position that it had no legal obligations to verify whether these individuals actually rendered any service. In view of the fact that Epstein was already receiving liberal commissions, plus an extra contingency commission, was this not indeed a "loading" of the premium? It was testified that while Epstein denied that these fees represented a return for favors

rendered, he readily admitted that the "administrators" were union officials through whom he originally obtained the business.

In one welfare fund case involving Local 262 of the Bakery, Confectionery and Cannery Workers Union, Newark, N. J., Washington National paid over $10,300 during a 4-year period to two coadministrators who were also officials of the local. Evidence shows that during the first 3 years, the company's checks were endorsed by the two coadministrators of the fund. These individuals, in addition, received small salaries and expense allowances from the fund plus, of course, their salaries as union officials.

Another case handled by Epstein concerns the Torsion Balance Co., of Clifton, N. J. This firm was the holder of a policy issued in 1953. In the 2 following years, it paid premiums totaling almost $12,800. Washington National paid administration fees of 5 percent, first to James Grafagnino, a former official of the International Jewelry Workers Union, and then to his father-in-law, Dominic Tripode, an official of the local. Since the plan was a unilateral employer-administered plan, neither of these persons had taken any part in its administration. Company officials had never even heard of the first individual.

Testimony with respect to the Continental Assurance Co. is full of instances in which the company paid fees running as high as 6 percent to trustees of welfare funds who, in fact, performed no administrative functions. In some of these, the brokers or agents were already receiving administration fees. In one case, an insurance company employee questioned the administrative fee arrangements made by the branch office since the home office performed all administrative functions. In still other cases, allowances for administrative fees were being made in order to retain the business, although no administrative functions were performed.

Testifying before the subcommittee, officials of Continental Assurance Co. had difficulty in defining the administrative functions of these individuals. Upon further questioning, the company's vice president testified that 1 to 3 percent was an adequate administration fee. With respect to administrative allowances made to trust funds, these officials testified that they saw no reason why a trustee, as a policyholder, who chose to have his experience rating refund divided into two parts—one labeled "administration allowance," the other, "refund," should not be accommodated. It was the policyholder's money, they said, and he could get it any way he saw fit.

In too many cases, the use of administrative fees by individual trustees borders on a racket. In the C. J. Simons case, this agent of Continental was obviously paying administration fees out of his commissions and fees to various individuals in a position to swing business to him.

The practices described above are vicious. In the Simons case, the testimony tells the sad story of a broker who had to pay so-called administration fees to various and sundry individuals in order to obtain and keep a gross yearly business of between $2 and $3 million. Apparently, these were paid out of moneys received from the insurance company as commissions and fees. This agent's commitments were such that this source of funds eventually became insufficient and he began to withhold premiums from the insurance carrier.

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(E) "SWITCHING"

"Switching" is the practice of transferring insurance from one carrier to another without disclosing the costs involved to the policyholder. "Control" of cases by agents and brokers is a common group insurance phenomenon. Switching involves the payment of high first-year commissions all over again. A "switch" means that installation costs and contingency and other risk-sharing reserves accumulated by one insurance company must be reaccumulated by the new carrier.

Based on reports from insurance carriers, the subcommittee's statistical analysis of group insurance transactions in cases where the union had some voice in the selection of the carrier shows that out of the 2,073 policies reported in force at the end of 1953, 10 percent had been shifted from one carrier to another. Of course, there are cases in which a carrier wants to "get off the risk" and advises the policyholder that his policy will not be renewed. In such cases, the latter seeks out a company that will take his risk and usually finds one. There are also cases in which the policyholder is not satisfied with the treatment he gets from the carrier and transfers his insurance to another. The record, however, shows cases, such as the LWIU–Saperstein case, where carriers were switched because the one would no longer continue the commission and fee arrangements. In this case, both Saperstein and certain of the fund trustees went to great lengths to make the switch.

Another example of switching is found in an insurance plan involving Local 195, Meat Cutters and Butcher Workmen of North America, Philadelphia. This plan was originally underwritten by the Continental Casualty Co., of Chicago, Ill., on January 1, 1952, through a broker, Dash & Love. A year later, it was switched to the Washington National Insurance Co. under commission arrangements which were more favorable to the broker. Some employers who were contributing to the program first learned of the change after it had been made.

This same broker handled an insurance plan involving the Boot and Shoe Workers Union, Philadelphia, which also was insured by Continental from August 1950 to December 1951, when it was likewise switched to Washington National.

In the Torsion Balance case, already cited, the insurance coverages had originally been carried by the State Mutual Life Insurance Co. and the Security Mutual Life Insurance Co. The agreement between this employer and the union (Playthings, Jewelry, and Novelty Workers International Union, CIO, Local 306) called for a specified program of benefits. In November 1952, a new agreement was entered into providing for contributions of 3¾ cents per hour, or $6.49 monthly per employee, into a "fund" to be used for the purchase of insurance. At that time, the union requested the company, in writing, to cancel the outstanding policies and to place the insurance with the Washington National Insurance Co. through Harry D. Epstein, broker. This was done. The employer was the policyholder and administered the plan. The commission and fee arrangements which Epstein enjoyed have already been cited.

During the subcommittee's hearings, an official of the Continental Assurance Co. testified on a case in which the C. J. Simons Corp.

was the agent, and in which the policy was canceled and reissued and, therefore, first-year commissions were paid twice. This official said, "* * * I certainly expect that the producer or someone must have decided that there was going to be a first-year commission paid on that case, anyway, if not with us, it could be placed with some other carrier * * *." When asked whether it seemed worth doing—paying a new commission again in order to keep the business, he answered, "* * * in our judgment we found that is what we had to do; yes." [11]

(F) DISCRIMINATORY TREATMENT OF POLICYHOLDERS

In its study of group insurance practices, the subcommittee has found that some insurance companies have given certain policyholders better treatment than others. Insurance companies under intense competition have made concessions to get and retain business. The complexities of group insurance are such that only knowledgeable buyers are able to judge for themselves the quality or value of the policy they buy. The cost of group insurance is reflected in the premiums charged the policyholder and, having due regard to claims incurred, in the dividends or experience rating refunds allowed by the company. It has been found that the net cost of insurance varies among different policyholders having similar size and experience and is frequently governed not only by competition but by the acumen of the buyer.

The General Motors-Metropolitan Life Insurance Co. group insurance policy is an excellent example of the best kind of treatment accorded to a policyholder. The interest which General Motors receives on certain types of reserves, including its "mean fund," and the fact that the normal contingency reserves on this policy are reserved for the policy alone, and that they are possibly recapturable by the corporation, makes it a policy uniquely favorable to General Motors.

The complex dividend or retention formulas used by the different insurance carriers to determine the amount of the dividend or refund, if any, that will be paid a policyholder are held in great secrecy and only a few companies, hesitatingly, made them available to the subcommittee. Basically, these formulas take the following into account: commissions and service fees and other acquisition costs; taxes; risk charges; home and field office administration expenses; cost of handling claims and a host of other miscellaneous costs, as well as reserves and in the case of stock companies, profits. When these items are subtracted from the premium, the remainder may be paid out as dividends or experience rating refunds.

Theoretically, all group cases come up for dividend or retroactive rate credit consideration once a year. Actually many small cases do not. This was clearly shown during the hearings.

Obviously, the determination of the amount of dividend, if any, that would be available requires an examination of the experience of the individual case.

Testimony before the subcommittee that insurance companies sometimes pursue variable policies with respect to dividends or rate credit refunds is very clear. In its field investigations, the subcommittee found case after case in which insurance carriers after an exchange

[11] Hearings, pt. 3, pp. 1356–1357.

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of correspondence with policyholders or their representatives have paid dividends that otherwise would not have been paid, or paid more because of pressure.

When asked to comment on the lack of uniform policy, one company official testified that "* * * everyone is not treated alike. That is another fallacy of this bonus or dividend system under which we operate." [12] An official of another company stated "I think that is probably true of most every company, frankly, and I think that is something you no doubt wish to consider carefully. The squeaking wheel gets oil." [13]

When asked whether this practice that results in one group policy getting better dividend treatment than another operates in the same manner whether the policyholder is a trust fund or a single employer, this same official answered, "I would say so, due to several reasons. One could be a far more able representative of theirs. A man trained in group insurance very often, I think, forces the hand of insurers on that point. * * *" [14]

It was brought out at the subcommittee hearings that premium rates have been lowered in cases in which the policyholder or his agent has exerted some pressure on the carrier.

With respect to first-year premiums, as already indicated, the rates are in a sense fixed. For life insurance, they are based on a standard rate which is uniform for all companies doing business in New York State. For accident and health insurance, they must conform to the rates filed by the companies. In actual cases, however, it is possible for an insurance company to file a schedule so designed that it can apply only to one case. This is sometimes resorted to when the case is a desirable one and various companies are competing for it.

More common, however, is the response to pressure that may be exerted when the policy is renewed on its anniversary dates. Since the life insurance premium for a given group may be expected to rise simply because the group, on the whole, has become older, companies commonly recalculate the rates periodically. The subcommittee developed instances in which policyholders, or their agents, challenged the announced increases and the companies reduced the increases or eliminated them altogether. If no questions were raised, the rates stood.

With respect to renewal rates for accident and health insurance, many cases were found in which the rates were reduced, not because of favorable experience, but simply because the policyholders, or their agents, complained to the companies. In some of these cases, other insurance carriers were interested in acquiring the business. There were other cases in which the claims experience caused the company to require a rate increase but on account of pressure from the policyholder (or the agent) reduced the increase or eliminated it altogether.

The subcommittee has found an interesting case which illustrates one of the effects of collective bargaining in the area of group insurance. In this case, the policyholder was an employer company. The insurance company informed its field representative that it hesitated to make a dividend payment. It gave as its reason that other employers in the industry had indicated they were not interested in dividends

[12] Ibid., p. 1253.
[13] Ibid., p. 1366.
[14] Idem.

because the insurance had been purchased under an agreement with the union by which the employer was obligated to pay a certain specific amount for insurance and dividends would only be turned over to the union.

(G) EMBEZZLEMENT

Two cases cited have received special attention from the subcommittee because they illustrate what can happen when insurance agents, insurance companies, union officials, and employers fail to appreciate the position of trust they occupy in the operation of welfare plans.

The Saperstein case.—This case has been fully discussed in the subcommittee's second interim report. In March 1951, the trustees of the social security department of the Laundry Workers International Union appointed Louis B. Saperstein as their "insurance agent" to handle its relations with the Security Mutual Life Insurance Co. At the same time, they passed a resolution providing that, henceforth, all premiums payable to Security Mutual should be paid to Saperstein for transmittal to the insurance company. This method continued to April 1954.

In October 1953, the policy was transferred to the California Life Insurance Co. By that time, the LWIU had paid almost $3,268,600 in premium for insurance with Security Mutual. Records, however, indicate that the insurance company received only $2,356,200, or almost $912,400 less than it should have. The embezzlement of over $900,000 was traced to Saperstein, who was obviously in collusion with at least one of the union officials, E. C. James, secretary-treasurer of the international.

This case involved 50,000 beneficiaries located in almost every State of the Union. It involved employer-employee trustees from five States, Indiana, New Jersey, California, Pennsylvania, and Illinois. The headquarters of the plan was at Indianapolis, Ind. The broker, Saperstein, operated in Newark, N. J. The insurance company was domiciled in New York State. The secretary-treasurer of the union, James, resided in Chicago. Besides the outright embezzlement of over $900,000 there was a host of other abuses and irregularities. This case was fully documented by the subcommittee nearly a year ago and was referred for attention not only to the United States Department of Justice and the United States Internal Revenue Service, but to the appropriate legal authorities in the five States.

No action has been taken.

Mr. James is still secretary-treasurer of the international union.

This is a glaring example of the inadequacy of present laws at either the State or Federal level. It also rather conclusively points up the complete inability of State authority to cope with abuses of this scope.

The Simons case.—The C. J. Simons Corp., of Newark, N. J., is a large insurance agency and serves as the northern New Jersey general agent for the Continental Assurance Company of Chicago, Ill. During the period 1951 through 1954, this company did an annual group business amounting to approximately $2.5 million in premiums. Evidence developed by this subcommittee at public hearings in December 1955 reflect that an officer of this firm, William H. Croland, treasurer, who owned a half interest in the corporation, embezzled at least $164,000 in insurance premiums in transit from numerous joint and employer-administered plans to the insurance carrier.

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It was further developed that the insurance company learned of this from the Simons Corp. between January and August 1954, but failed to notify any public authorities of this crime. The Continental Assurance Co. settled this embezzlement with the Simons Corp. civilly, making full allowances for commissions, administration fees, and contingent commissions on the embezzled money, and they continued to do business with this firm which is still licensed in the State of New Jersey. No prosecutive action in this case has been initiated although the money involved was paid for the benefit of dozens of welfare funds and tens of thousands of employees. It is believed that the course followed by the insurance company in regard to this matter should be subject to close scrutiny.

3. SOME OTHER PROBLEMS

(A) COLLECTIVE BARGAINING AND WELFARE PLANS

Collective bargaining has had a tremendous influence on the growth and form of welfare plans. It has set patterns and trends which influence the character of all plans. For one thing, whether a plan is included in a collective-bargaining agreement or not, it is subject to collective bargaining. This means that the employer must watch the trend of collectively bargained plans, even if he has no bargaining relations with a trade union.

Collective-bargaining agreements run for a specific term—1 year, 2 years, etc. The plan, then, is subject to change at the expiration of the agreement. If the agreement is not extended or renewed, the plan may be discontinued. It may be said, therefore, that the economic security provided the employee rests, to a great extent, on the fortunes of collective bargaining.

Since collective bargaining is a continuing process, the plan may not reach its final form for some years. For example, there are trust funds which, in the initial stages, receive higher contributions than the schedule of benefits warrants. In such plans, the parties involved intend to improve the plan at some future date after some experience has been developed. Conversely, there are plans which initially provide more liberal benefits than the contributions warrant, but the unions involved expect that once the plan has been established, the employers will agree to the needed higher contributions. Both of these arrangements present problems.

Employers having agreed to contributions towards a plan—whether they are the sole administrators or coadministrators—frequently feel that the plan is really the union's plan and, therefore, take little or no interest in it.

(B) PROBLEMS OF SMALL GROUPS

Small groups cannot purchase group insurance as advantageously as larger ones. In fact, although many insurance companies will issue group insurance to employers with as few as 25 employees, according to insurance-industry information compiled by the subcommittee (see sec. V) the cost of such coverage amounts to one-third of the total premiums paid as against something less than 5 percent on large group insurance policies. Of course, self-insurance is ruled out for small employers because of the prohibitive risk and expense.

The laws of three States—New York, New Jersey, and California—which require employers to provide sickness and accident insurance benefits for their employees, have created a demand for group insurance on the part of small employers. Although the insurance may be obtained from State funds, if the employers find it desirable, the fact remains that the savings available to larger groups cannot be enjoyed by small employers.

The multiemployer trust funds, therefore, fill a real need. Although the subcommittee's investigations have shown that, in some cases, these arrangements have resulted in a diffusion of interest between employer and union trustees, such funds have functioned to the benefit of the employees covered when all trustees and the fund administrators have taken their responsibilities seriously.

In the main, it is desirable for small employers to group together. By doing so, they can enjoy the savings of large group operations, whether they self-insure or purchase insurance. One of the problems, however, is that one employer group may enjoy a better claims experience than another. To that extent, he helps carry the groups having poorer experience.

(C) STATE REGULATIONS AND INTERSTATE COMMERCE

By policy the Federal Government has reserved the regulation of group insurance to the several States. While self-insured plans and welfare funds as such have not yet come under State regulation, this is presently being considered.

The adequacies of State legislation are fully discussed in section V. The importance of the New York State insurance laws and regulations is also fully treated, as this State exerts a very strong influence on the insurance business throughout the country. Nevertheless, while this is true, the only means at its disposal to enforce regulations with respect to out-of-State companies, agents, and brokers is to revoke their rights to do business in New York State. Only one example need be cited. In the Simons case, the State of New York revoked William Croland's broker license. He can no longer do business in New York State. However, Croland's office was located in Newark, N. J. and he was licensed to do business in that State. New Jersey, so far as is known, has not revoked his license and Croland is still functioning as an insurance broker in that State.

Most insurance companies do business in more than one State. Many do business in all States. They have to abide by the laws in each of the States, pay taxes to each of the States—at different rates—report to each of them, et cetera. Compliance with the different regulations of each of the States is cumbersome. However, the companies have adopted procedures to do this.

The sale of individual insurance is undoubtedly a local matter and its regulation may properly belong primarily within the jurisdiction of State authorities. Group insurance, under the complexities and intricacies of modern business, however, presents an entirely different situation. Surely, a group policy issued to the General Motors Corp., or the United States Steel Corp., has an interstate character. The General Motors' policy was issued by a New York insurance company. The policyholder's headquarters is in Detroit, Mich., and its em-

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ployees are working in plants and offices all over the United States and in foreign countries.

Similarly, many welfare plans operate in several States. Let us take the laundry workers' welfare fund. The union has 55 locals throughout the United States and in Canada. The decision to set up a welfare plan was made in Chicago at a union convention. The first local to negotiate such a plan was local 46 in San Francisco, Calif. Headquarters for the fund was established in Indianapolis, Ind. The insurance was purchased through a Newark, N. J., broker from an insurance company located in Binghamton, N. Y. The broker maintains bank accounts in Chicago, San Francisco, and Newark—at least. The 6 trustees of the fund were selected on a geographical basis and come from 5 States. The welfare deputies who handled claims were located in 33 different sections of the country.

Premium checks originated in Indianapolis, Ind., where they were signed by the chairman of the board of trustees, then forwarded to San Francisco to be cosigned by the secretary-treasurer of the board, who, in turn, forwarded them to the insurance agent in Newark. The latter would then deposit the checks to one of his bank accounts. Claims checks would be drawn by the insurance carrier in New York and generally forwarded to the 33 welfare deputies all over the United States. Premiums were embezzled by the broker and sent from Newark to an officer of the international in Chicago. The effectiveness of State regulation of welfare plans of such geographical scope is open to question.

(D) INVESTMENT OF WELFARE FUND SURPLUSES

Welfare funds commonly consist of contributions made by employers and/or employees. Premiums to insurance carriers, in insured plans, are paid from the funds so accumulated; in self-insured plans, benefits are paid directly from these funds. Under both methods the funds generally accumulate surpluses. This raises the problem of investment.

Most fund trustees are very careful with the investment of such funds and the principle of diversity of investments has been generally adhered to. Some trustees are very conservative. Many tend to invest their funds almost entirely in Government securities. Some funds have been slow in selecting their investments, others have been overanxious to be in a liquid position, and have permitted large amounts to accumulate in their bank accounts—at no interest.

Some funds have invested in ventures of a social nature. For example, the funds of the International Ladies Garment Workers, the Amalgamated Clothing Workers, and the United Mine Workers, have used surpluses to finance medical facilities to carry out their health programs. To the extent that such investments have been made only after due deliberation, that the ventures are efficiently run, and that sound principles of investments have not been violated, these may be desirable. The sponsors of such plans must, of course, be very careful that by drawing moneys from their funds for such purposes they do not drain their resources to the point that they cannot meet their cash obligations for other direct benefits or for the payment of insurance premiums.

Other ventures of a social nature, in which welfare funds have been invested, are housing and vacation camps. These frequently yield a return on the capital invested. As long as these ventures are operated in a businesslike manner with no ulterior motive, the subcommittee finds no fault with them. However, this principle as well as sound investment practices have been violated in some instances. The investment of $15,000 of moneys accumulated in the Philadelphia Fur Workers Union, Local 53, health insurance fund, for example, raises many questions. This sum was invested in a mortgage on property owned by the New Kinderland Camp Corp. and Camp Lakeland, Inc. The mortgage actually was a prior claim on a $90,000 mortgage consolidating a series of 8 mortgages, 7 of which were once held by the International Workers Order. This organization was found to be a Communist organization by the supreme court of the State of New York. The aforementioned camps were also managed by an individual who, in the opinion of a justice of the New York Supreme Court, was a well-known Communist Party member.

(*1*) *Mortgages on union property*

Some funds have invested surpluses in mortgages on office buildings occupied, in whole or in part, by the unions with which they are associated. While these may be sound investments, there is a question as to whether such investments should be made and whether they would have been made had the union not been located in the building.

The difficulty of establishing what is to the benefit of the union and what is to the benefit of the welfare fund in investments of this type, even though the investment is a sound one, is illustrated in the case of the laundry workers welfare plan. At one time the fund invested approximately $26,000 in a first mortgage on an office building in which the offices of local 52 were located. The secretary-treasurer of this local is also a trustee of the fund.

(*2*) *Investments in employer property*

In general, investment in the property of an employer is subject to question. When the securities of an employer are freely traded in the various stock exchanges, inclusion of the securities of participating employers in a fund's investment portfolio may be quite accidental. Such funds will remain more steady if not tied too closely to the economic affluence of the employer. From the point of view of the interest of the beneficiary the tie-in of his economic security with the fortunes of his employer will, in times of stress, affect materially the soundness of the fund.

The subcommittee has found instances in which fund investments in employer properties raise many questions. Much publicity has recently been given to the investment of $2 million from one of the welfare funds of the teamsters union in the common stock of the Montgomery Ward Co. There is little question of the soundness of this investment. The fund portfolio remained well balanced. The stock was purchased at $60 and recently quoted on the New York Stock Exchange at $85. Its marketability is beyond question. Yet, officials of the union do not hesitate to admit that the stock was purchased for publicity reasons. It had been trying to organize the company without success for many years. After the purchase of the

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securities was announced, organizational activities proceeded with much success.

In the Inciso case, the former UAW–AFL Chicago Local 286 had called a strike against one of the employers. In the course of negotiations it developed that the employer was pressed for cash to meet certain heavy tax payments. The union told the employer that it would loan him the money he needed after the strike was settled. The strike was settled and the union loaned the employer $40,000 and obtained a chattel mortgage on the employer's equipment.

Again, in the laundry workers case, the fund approved a loan of $35,000 in a 5-percent mortgage on property occupied by the New Linen Supply Co. In this case, the property had been appraised at $40,000.

(3) Ownership of insurance companies

Only a few welfare funds own insurance companies. Two well-known examples of ownership of insurance companies by welfare funds are the Amalgamated Life Insurance Company of New York and the Amalgamated Life & Health Insurance Company of Illinois, owned by welfare funds of the Amalgamated Clothing Workers of America. Their admitted assets are $9,300,000 and $2,600,000, respectively, and they appear to be operated efficiently. The companies were set up because, at the time, the well-known insurance carriers were reluctant to underwrite a multiemployer plan and to insure the members of the union at standard rates. The membership of this union includes a high proportion of women, is generally of a high-age group, includes a high proportion of non-Caucasians, and traditionally has more or less seasonal employment. The companies' business is restricted to the union's welfare funds. They now cover about 500,000 workers and pay benefits of approximately $1 million a month. Their underwriting expense was 8.3 percent of premiums in 1954.

The former UAW–AFL Amalgamated Local 286 presents an example of union domination, without ownership, of an insurance company. Angelo Inciso, head of the union, took over and managed the American Continental Insurance Co. as he saw fit regardless of State insurance law and regulations.

In another case, the California Life Insurance Co. was purchased by the social security department of the Laundry Workers International Union. Negotiations leading to this purchase originated in April or May 1953 between the president of the California Life Insurance Co. and an individual who was at the time an officer of the Security Mutual Life Insurance Co. In July of the same year, Security Mutual informed the broker of record, Louis B. Saperstein, that his commissions would have to be reduced and certain administrative payments to Eugene C. James, secretary-treasurer of the Laundry Workers International, would have to be discontinued. As of August 6, 1953, a group of the trustees of the LWIU welfare fund, the broker Saperstein, the officer of Security Mutual who had by then left that company, and certain officials of the LWIU, secured control of California Life, utilizing private funds. As of October 1, 1953, the insurance of the LWIU welfare fund was changed from Security Mutual to California Life.

Subsequently, through a series of transactions culminating in April 1954, the control of California Life was transferred to the social security department of the LWIU welfare fund. No finders fee or commissions were paid in connection with this transaction nor did any profit result to any of the individuals who had originally arranged for the purchase of California Life.

On June 3, 1954, Saperstein's contract with California Life was canceled. The president of the latter company testified that this was done as soon as he learned of the unfavorable publicity and involvement of Saperstein with the New York insurance authorities.

The explanation offered for the manner in which the purchase of California Life was effected was that the parties did not want it made public that California Life was being purchased by a labor union and it seemed doubtful to the trustees that the social security department could invest in common stock in the corporation unless such investment represented control.

The subcommittee had been informed that this investment by the social security department resulted in great benefit to the welfare fund; that its group insurance is now commission free; and dividends have been considerably larger than before.

Though the purchase of this insurance company finally culminated to the advantage of the welfare fund and without personal benefit to the individuals through whose efforts it was arranged, the manner in which the purchase was handled presents serious questions because of the possibility that these parties could have profited personally, because of possible conflicts of interest, and because the evidence raised considerable doubt as to the original intentions of the parties involved.

(E) INTERLOCKING DIRECTORATES AND FINANCIAL TRANSACTIONS

Labor union representatives have alleged that there are certain practices in the operation of unilateral employer-administered group insurance plans that result in the employees getting less insurance protection for the premium dollar expended than they otherwise would. One of these has to do with the instances in which an employer has purchased insurance from (or has continued an insurance policy with) an insurance company from which it has obtained a sizable loan. Another raises the question of the possible adverse effects of a concern dealing with a carrier to which it is related through interlocking directorates. The subcommittee has made special inquiries as to the extent to which such practices exist and has found some instances in which insurance transactions took place with companies with which the insurance carriers had financial relationships or interlocking directorates, or both. Time did not permit the subcommittee to determine whether or not interlocking directorates or the circumstances surrounding insurance company investments had any bearing on the purchase of group insurance. Of course, large insurance companies with large amounts of money continuously available for investment might quite accidentally find themselves investing in securities of their policyholders. The subcommittee feels that, per se, there is nothing wrong where a carrier has securities of, or has made loans to, a company for which it writes a group policy. However, the exclusion of bids of other companies simply in order to place insurance with a carrier with which the insuring company had a financial tie-up would

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be a reprehensible practice. Section XI of this report discusses the inquiry directed by the subcommittee to the 10 largest group insurance companies with respect to interlocking directorates and financial transactions between the carriers and large policyholders. Because of lack of time to inquire into the various situations reported, the list of such transactions is not set forth but is being retained in the subcommittee's files.

(F) SELF-INSURANCE

The beneficiaries of self-insured plans do not presently have adequate protection under State laws.

While the staff did not study any self-insured employer-administered welfare programs, an intensive study was made of the United Mine Workers Welfare and Retirement Fund for the bituminous coal industry. This is an entirely self-insured program, which was found to be honestly and competently administered. Administrative expenses on the death benefit programs were calculated to be only 1.8 percent of the benefits paid, and on the medical care program 5.4 percent of benefits provided.

The subcommittee reviewed the experience of the self-insured welfare fund of the Distillery, Rectifying, Wine and Allied Workers' International Union. This fund formerly carried its insurance with Security Mutual Life Insurance Co., Louis B. Saperstein originally having been the broker and having received a 10 percent commission, as in the Laundry Workers International Union case.

As of October 1, 1955, this fund canceled its insurance with Security Mutual and undertook to provide the same benefits as theretofore on a self-insured basis. Testimony received at the hearings showed that 15 days after the fund instituted self-insurance the salaries of the office manager and the fund's attorney were raised from $13,000 and $10,000, respectively, to $25,000 a year.

For a number of years up to June 1954, one of the trustees of this fund was Sol Cilento, who was then and is now executive vice president of local No. 2 of this union. Cilento was one of three individuals named by Saperstein as having received payoffs and kickbacks totaling $299,000 over a 2-year period in 1951–52. Cilento was indicted in New York County but was freed of kickback charges on a legal technicality. There is some evidence that Cilento still exercises influence over the operation of this fund.

Testimony brought out at the hearings showed that in going to a self-insured basis the fund had received very little actuarial advice. Testimony also showed that certain dubious practices under the program when it was insured were continued under the new self-insured program. Two union trustees who were also union officials received fees as fund trustees of $100 a month and payments of $700 to $800 a month as welfare representatives in addition to their union salaries. Various other officials and persons connected with local unions also received salaries as welfare representatives. Inasmuch as the fund directly administered all claims and benefit payments, it was not clear just what functions of value these welfare representatives performed for the payments they received.

Testimony at the hearings also brought out that the whole administration of the program was characterized by nepotism. Melvin M.

Dykes, the fund administrator, is a nephew by marriage of Cilento. Joseph O'Neill, chairman of the board of trustees and international union president, has two sons who are welfare representatives at salaries of $800 and $300 per month, respectively; Max Drexler, executive secretary of local No. 2, has a son who is a welfare representative at a salary of $380 a month.

The subcommittee believes that the States might well regulate self-insured plans to a much greater degree than they do at present.

B. PENSION PLANS

Pension plans have at least two features which differentiate them from welfare plans and which warrant separate discussion. One of these features is that, unlike welfare plans which deal with short-term risks, pension programs deal with long-term future contingencies. If a welfare program is unsoundly designed in that income is insufficient to meet benefit costs, that fact comes to light almost immediately and steps can easily be taken to bring the two into balance. However, in the case of a pension program which is inadequately funded, the inability of the program to provide the pensions which have been promised will not come to light for a considerable period of years, and by that time any correction of the program so as to prevent a defaulting on pension obligations will be most difficult, if not impossible.

The second feature of pension programs which necessitates separate treatment is that, in general, these plans require the accumulation of large reserves which must be invested and the income from which becomes an important source of future pension payments. These reserves, which are growing rapidly in volume, and which are largely in the hands of insurance companies, banks and other trustees, create a whole series of problems. One of the most significant of these is to assure that the funds are wisely and prudently invested and that the equities of the beneficiaries are protected.

1. DESCRIPTION OF PENSION PROGRAMS

There are no firm figures as to the total number of pension plans in this country, inasmuch as some plans are quite informal in character.

There are known to be some 17,280 so-called insured plans—i. e., plans insured or administered by insurance companies [15]—and there are estimated to be approximately 4,000 so-called trusteed plans, in which the pension fund is administered and invested by a bank or other trustee. In addition to these there are several thousand profit-sharing plans with retirement features, and probably many thousands of formal and informal pay-as-you-go plans.[16]

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[15] The Life Insurance Institute of America obtains reports annually from all insurance companies as to volume of group insurance written. These surveys cover pension and retirement plans insured or administered by insurance companies, and provide data on persons covered under such plans, total premiums paid, and reserves. Data for 1954 are reported in the Tally of Life Insurance Statistics, May 1955.

[16] The Internal Revenue Service up to the end of 1954 had "qualified" 28,307 employee pension, profit-sharing, and stock-bonus trusts, as meeting the requirements for tax exemption under sec. 401 of the Internal Revenue Code of 1954, and had issued 1,734 rulings on termination of trusts, leaving some 26,573 such trusts qualified at that time. The Service estimated that at the end of 1955 there were approximately 30,000 "qualified" trusts. A study by the IRS in 1946 found that approximately 70 percent of the qualified trusts were pension plans, and 30 percent were profit-sharing trusts; stock-bonus plans constituted a negligible proportion.

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Of the 17,280 insured plans at the end of 1954, 11,550 were individual policy pension trusts, 3,410 were deferred group annuity plans, 760 were deposit administration group annuities, and 1,560 were combinations or variations of these types of plans. Of the 3,915,000 employees covered under all "insured" plans, almost two-thirds—2,350,000—were covered under the deferred group annuity plans, and 835,000 were covered under deposit administration plans. In the case of all of these plans, other than deposit administration, annuities on an individual or group basis are purchased from an insurance company and the insurance company guarantees the payment of pensions or annuities in question. In the case of deposit administration, amounts estimated to suffice to meet future pension obligations are deposited with an insurance company which holds and invests these funds; however, the insurance company does not guarantee that the funds so deposited will be adequate for meeting future pension costs.

Under the so-called trusteed plans, the employer or other entity establishing the plan, makes contributions into a pension fund. These contributions are of two sorts, those estimated to be required to fund pension obligations currently being earned by employees, and those required to fund the so-called past-service pension obligations. Some 80 to 90 percent of all pension plans of this type use a bank as corporate trustee to hold an invest the funds in accordance with a trust agreement. In most other cases a committee appointed by the employer performs this function. In some cases—a minority—the bank merely serves as custodian of the fund's securities or other holdings and has no discretion as to investments, the employer directing all investments. At the other extreme, the bank may have sole discretion as to investments. There are all variations in between these two poles, such as those in which the bank has investment discretion subject to such direction as the employer may from time to time wish to make, or in which the purchase of certain classes of securities or assets is specifically directed or specifically prohibited.

Under pay-as-you-go plans no pension fund is accumulated. The employer or other entity simply pays pensions out of current income as employees retire. The characteristic of such plans is that the costs are light in the initial years of the program, but then, other things being equal, increase progressively year by year as additional employees retire. Under these programs, employees have no security for future pensions other than the continued prosperity of the concern or entity operating the plan.

It is estimated that, at the end of 1954, approximately 12,500,000 employees were covered under all types of pension plans. About 7 million of these are covered under collectively bargained programs. Of the 12,500,000 covered employees, 3,915,000 were under insured plans, about 1 million were under pay-as-you-go plans, and the remainder, 7,585,000, under funded trusteed plans.

Total reserves of all insured plans at the end of 1954 were $9,800 million; total assets of all trusteed funds at the end of 1954 were probably about $12 billion [17] at book value, and possibly close to $13

[17] The Securities and Exchange Commission, in its study of corporate pension funds, 1954 (release of October 12, 1955), found that these pension-trust funds had total assets at the end of 1954 of $11,250 million. This study covered all corporations exclusive of banks, railroads, and nonprofit organizations. The pension-trust funds of banks, nonprofit organizations, and of jointly managed and union administered plans might bring the total close to $12 billion at book values.

billion at market value. Total reserves of all plans are, therefore, about $21.8 billion at book value.

Corporate pension and retirement trusts have been growing rapidly—from $6,356 million at the end of 1951 to $11,250 million at the end of 1954.

In 1954, total contributions to insured plans were $1,325 million; total contributions to trusteed plans were approximately $1,868 million; and total contributions, i. e., benefits paid, under pay-as-you-go plans, about $100 million.[18] The grand total of contributions to all plans was $3,293 million, of which approximately $2,866 million are estimated to be employer contributions and $427 million employee contributions.

The vast majority of all pension plans are established and administered by employers and cover the workers of a single corporation or such a corporation and its affiliates. In some employer-administered plans representatives of the employees participate in the administration of the program. Frequently, this is restricted to passing on applications for benefits; generally, it is the employer who really controls and manages the program.

Since 1946 a considerable number of multiemployer jointly managed plans have developed, i. e., plans established under an agreement between a union and a number of employers and jointly managed by trustees representing the union and the employers. Among the principal plans of this type are the United Mine Workers welfare and retirement fund, the pension plans of the International Ladies Garment Workers Union, the Amalgamated Clothing Workers of America, the International Brotherhood of Electrical Workers, and the recently formed Teamsters Central States, Southeast and Southwest areas pension fund. In addition, there are a small number of plans which are wholly administered by labor unions. These two types of plans together cover possibly 2 million workers, of which the great majority are covered under the jointly managed plans. Total contributions to these plans in 1954 are estimated at about $140 million, of which $120 million were employer contributions and the remainder employee contributions.

2. SUBCOMMITTEE STUDIES

A number of multiemployer jointly managed plans in the pension field were examined by the subcommittee. These included the pension program of the United Mine Workers welfare and retirement fund for the bituminous coal industry, the Teamsters Central States, Southeast and Southwest areas pension fund and, less intensively, the pension programs of the International Ladies Garment Workers Union and the Amalgamated Clothing Workers of America. The staff also reviewed a number of pension plans unilaterally administered by employers. Among these were the pension plans of General Motors Corp., Chrysler Corp., American Motors, the Automotive Tool & Die Manufacturers Association in Detroit, United States Steel, and a few others.

In addition to these studies of individual plans, the staff held conferences of record with the representatives of several very large banks

[18] The pension program of the United Mine Workers welfare and retirement fund, which paid benefits of $70 million in 1954–55, is included here as a pay-as-you-go plan.

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which serve as corporate trustees for many pension plans, and with insurance company representatives relative to group annuities and deposit administration plans. Data were also obtained from 64 banks, each of which administers pension and other trusts with aggregate assets of over $100 million, relating to the pension trusts which they administer.

All of these plans were funded trusteed plans. The committee made no detailed study of insured pension plans.

Less attention was given to the development of possible abuses in the pension field than to the important problems of adequate funding, investment policies, the degree of disclosure of the financing of such plans to employee beneficiaries, etc. This of course does not mean that there are no abuses.

3. SOME OF THE PROBLEMS

Without question the long-range nature of pension plans makes the manner in which these plans are financed of the highest significance. Basically, as already pointed out, there are three methods of financing pension plans.

Pay-as-you-go plans present the greatest element of uncertainty. While such a plan may be adequate in that it can be expected to meet the benefit payments, the foundation of such a plan is only as strong as its sponsor. If he is in an expanding industry whose products can be expected to remain in demand and if he can be expected to remain in business indefinitely, then the employees covered by it need have no fear that their retirement benefits will one day be discontinued. However, only a very unique enterprise can be sure to remain prosperous in perpetuity. In fact, the industrywide pension plan in the anthracite coal industry reduced its scale of benefits simply because of the economic plight of the industry. This illustration is not intended to reflect on the character of pay-as-you-go plans. Under certain circumstances such a plan may be highly desirable. It is important, however, in any formalized pay-as-you-go pension plan that all those concerned with it are aware of its limitations. If they desire, they can then make their own arrangements to supplement the plan. Disclosure of the financial experience of such plans would keep interested parties informed.

The great distinction between pay-as-you-go plans and funded plans, whether trusteed or insured, is that in the latter funds in the nature of deferred wages are currently set aside to meet future pension obligations to employees who qualify for benefits under the terms of the plan. If the pay-as-you-go plan is terminated, there is no such reserve.

Self-insured funded plans, usually trusteed, present a far stronger element of certainty of payment of benefits. The more fully funded they are, the more certain the benefits. In these plans the manner and extent of funding are the responsibility of their sponsors, even where banks are used as trustees. Sometimes such plans at the outset spend more than is warranted by the moneys available in an effort to secure more liberal benefits. With experience, careful administration, and competent actuarial advice, the plan's finances can be adjusted to the point where it will become adequately funded. The long-range nature of pension plans lends itself to such adjustment. Here again,

the plan is as good as its sponsors. Whether or not a plan should be fully funded, or whether a plan must be fully funded in order to be adequately funded, is beyond the scope of this subcommittee. The subcommittee is convinced, however, that the manner of funding presents many problems and that proper funding is essential for the safeguarding of the employees covered by the plan. Employees get little security out of a pension plan that is discontinued. The manner of funding is so important that all interested parties should be kept fully informed as to the plan's experience, especially with respect to matters revealing the plan's ability to meet its commitments. This is as true in insured plans as in trusteed plans, particularly as the moneys used to fund the plan are in the nature of employee compensation.

Investment of the assets of trusteed plans presents other problems. Usually this is performed by corporate trustees and is their primary function. Sometimes they have full discretion in the selection of investments; sometimes by the trust agreement their discretion is limited. The investment earnings of the assets of a pension plan are most important. The higher the earnings, the lower the cost of the plan. The problem here is one of achieving the highest yield without sacrificing safety.

The corporate trustee's functions do not include those of determining the liabilities of the funds. It should be clearly understood that banks or other corporate trustees in selling the features of the trusteed type of plan, such as higher income return on investment, do not have the responsibility for the actuarial soundness of the plan. These functions remain with the sponsor or sponsors of the plan and are usually performed by an actuary retained for this purpose.

In insured pension plans generally the insurance carrier assumes the responsibility for the determination of the liability of the sponsor for the investment and safety of the funds. In other words, the insurance company guarantees the payment of certain benefits dependent upon the premium paid. It follows that under these circumstances the assumptions used by insurance companies would naturally be more conservative than would be typical of trusteed plans. The continuity of premium payments of course is a necessary prerequisite to an adequate funding of the insurance plan. Moreover, as the insurance company assumes the responsibility for evaluating the plan's liability, it reserves the right to make periodic reevaluations with a view to adjustment of premium.

In deposit administration plans, however, the problems are similar to those found in self-insured or trusteed plans.

4. INVESTMENT IN THE ASSETS OR OBLIGATIONS OF THE EMPLOYER

Employees obviously have an interest in the wise and prudent investment of the funds which have been set aside to provide them with pensions. One of the problems in this connection is the investment by the fund in the assets or obligations of the employing company or its affiliates or other interested parties. Under some circumstances an investment of pension funds in the securities, obligations, or other property of the employer may well be part of a wise and prudent investment program, but an unduly large holding of this type may

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not be in the interests of the beneficiaries. Furthermore, any large investment in the securities or obligations of the employing company tends to raise the question whether the fund is being operated for the sole interest of the beneficiaries. It is known that there are a certain number of funds which have invested in the assets of the employing company [19] (see sec. XII).

In order to obtain more definite information on this point, the staff sent letters to 66 large banks, requesting lists of the pension plans for which they serve as corporate trustees and information as to provisions of trust agreements relating to investment in assets of the employer, and details as to such holdings in each case. These 66 banks were known to have some 5,269 pension and other employee trust accounts with aggregate assets of $8,256 million. The pension trusts that these banks administer contain the vast bulk of the total assets of all pension trusts for which banks serve as trustees.[20]

Replies from 64 banks showed that these banks administer a total of 5,053 plans of which 3,515 are pension plans and 1,538 are profit-sharing plans with retirement features. Of the pension plans, 324 are insured plans in which the holdings consist entirely or mainly of individual annuities, the banks having no investment functions.

Of the 3,191 noninsured plans, the trust agreement in 967 cases specifically permits investment in the employer's assets, in 650 cases specifically prohibits such investment, and in the remaining 1,574 is silent on this point. In at least 914 plans the bank has sole discretion as to investment.

Of the 3,191 noninsured plans, 195, or 6 percent, hold employers' assets or obligations in the fund, and in 65 cases such assets amount to more than 10 percent of the total assets of the fund. A list of these plans, together with a description of the assets so held, appears in section XII of this report.

The subcommittee staff has not had time to obtain detailed facts on the pension plans in which more than 10 percent of the fund consisted of the securities, obligations, leasebacks or other property of the employer. But the perusal of this list of pension plans raises a number of disquieting questions. It seems obvious to us that there are a number of instances in this list in which the heavy investment in the assets of the employer may not be in the interests of the beneficiaries and in which the investment may have been motivated, at least in part, by ulterior considerations.

One of the principles of wise investment is that there should be a diversification of risk. Where a concern is large and the character of its business is such that it gives every promise of being stable and permanent, some investment in the securities or assets of the employer may be part of a prudent investment program. Thus, the seven banks which are trustees for the General Motors Corp. pension fund have in the aggregate invested about 5 percent of the fund assets for which they are responsible in the bonds or common stock of General Motors Corp. and its subsidiaries. In an investment program which seeks wide diversification, such an investment may be considered quite prudent and sensible.

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[19] It may be noted in this connection that Canada prohibits investment of any part of a pension fund in the stocks, bonds, or other obligations of the employing company; that is, it refuses tax exemption for employer's contributions to a plan which makes such an investment.

[20] See hearings, pt. 3, p. 888.

But on the other hand, the investment of a large share of a pension fund in the employer's assets or securities appears to violate the common sense injunction of not putting all one's eggs in one basket. It appears to us that there are instances in the list set forth (sec. XII, pt. 2) where the heavy investment in the employer's securities or assets cannot be justified as a part of prudent management of pension funds. There are a number of cases in these lists where over 50 percent of the trust assets are invested in the securities or notes of the employer, and where the concern is a small one and quite possibly subject to wide swings in prosperity or adversity. In such instances, we doubt that these pension funds give real assurance to employees that the pensions to which they are entitled on retirement will actually be theirs.

The following discussion between Senator Douglas and Mr. C. Canby Balderston, Vice Chairman of the Board of Governors of the Federal Reserve System, bears directly upon this point:

> Senator DOUGLAS. Leaving aside the question of profits, do you think as a general principle it is sound practice to have pension funds invested in stocks of the companies in which the men themselves are employed?
>
> Mr. BALDERSTON. As you know, sir, there are some notable examples of growth companies where that practice has proven exceedingly beneficial to the employees.
>
> Senator DOUGLAS. But excluding the profit-sharing plans?
>
> Mr. BALDERSTON. Yes.
>
> Senator DOUGLAS. But as to separate pension plans, do you think it wise general practice to have the funds invested in securities of the same company in which the men have jobs?
>
> Mr. BALDERSTON. In general I do not. First of all, it violates the principle of diversification of investments, and secondly, it places employee funds that they should be able to rely upon in "rainy seasons" in the same company on which they depend for their jobs and livelihoods.
>
> Senator DOUGLAS. But there is nothing to prevent this being done, is there?
>
> Mr. BALDERSTON. No; it depends on how the instrument is drawn.[21]

There is a certain degree of control exerted over investment of pension fund assets in the securities, obligations or property of the employer under existing tax provisions. With respect to pension plans, the Internal Revenue Service requires that a full disclosure be made to it if trust funds are invested in the stock or securities of, or loaned to, the employer. Its regulations stipulate that a trust of this character, in order to be tax exempt, must be operated as part of a plan which is for the exclusive benefit of the employees or their beneficiaries. An incidental benefit may also inure to others provided that the primary purpose of benefiting employees is maintained. If the Internal Revenue Service finds that an investment in the stock or securities of, or a loan to, the employer results in the trust not being operated for the exclusive benefit of employees or their beneficiaries,

[21] Ibid., pp. 893–894.

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the Service may revoke a prior favorable determination as to the qualification of the plan for tax exemptions.

Our studies in this area have not been sufficiently intensive or extensive to enable us to arrive at conclusions as to whether legislation would be desirable limiting investment of trust funds in the securities or obligations of the employer or in property used by the employer. However, we certainly believe that for the protection of the interests of the beneficiaries such investments should be subject to the laws and regulations of the various States and the question of the propriety of such investments should be the subject of further study. The subcommittee further believes that additional study should be given to this issue and that the States should review existing laws with respect to trusts with a view to making pension trusts subject to the same laws as to investments which apply to other types of trusts.

5. DISCLOSURE INFORMATION ON STATUS OF PENSION PLANS

It is not the general practice of those in charge of pension plans to make information as to the fund's operations available to the employees.

United States Steel's position in origially refusing even to give the subcommittee staff access to information regarding its employee pension fund portfolio is an excellent example of the attitude of a large percentage of employers. Under existing law these companies obtain tax concessions in return for welfare and pension plan contributions in lieu of wages. The employees work under the understanding that part of their compensation is in the form of a pension to be received later. As Mr. Robert C. Tyson, vice chairman of the finance committee, United States Steel Corp., stated at the subcommittee's hearings:

> The funding of current service cost starts out by recognizing that the cost of an employee's service is greater than the amount currently paid to him as wages because, as he works, he concurrently establishes a possible claim to a pension. In a sense this is a claim to more pay for the same work * * *[22]

It is impossible for the subcommittee to accept the policy of secrecy in the management of pension plans even though they may be noncontributory.

Public welfare demands that this policy be discontinued.

General Motors pension fund aggregated $371 million at the end of 1954.

United States Steel's pension fund amounted to over $700 million.

The American Telephone & Telegraph and subsidiaries pension funds exceeded $2 billion.

We cite the above only as cases involving enormous economic power and affecting the ultimate security of great numbers of our population. These programs are in part collectively bargained.

Both General Motors and United States Steel vigorously resisted any public disclosure of the details of their pension trust investments, the earnings of those investments, market values, costs of securities, and accretions to or declines in values.

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[22] Ibid., p. 1160.

Representatives of General Motors and United States Steel stated that a disclosure in detail of their investments would not be in the public interest and would be unfair to them. They argued that where, through the astuteness of their investment counselors, they have found some highly profitable investments, to call attention of others to their holding such investments would invite others also to make such investments and might impede their investment program. They also stated that investors would follow such reports with avid interest in order to obtain leads on profitable investments, and that investments which might be suitable for a large fund might be unsuitable for an individual with small resources.

Undoubtedly, those advancing these arguments firmly believe they have merit. However, the subcommittee feels that the disclosure practices currently required of, and being followed by, others—such as universities, investment and insurance companies—amply demonstrate that the revealing of such information has no fatal results. Harvard University has a total endowment fund of $442 million; Yale, one of $214 million; the University of Chicago, $144 million. Other colleges and universities also have large endowment funds. They give full details of their investments in annual reports which are available to the public. Investment companies are required by the Investment Company Act of 1940 to publicly disclose their investment operations. Insurance companies provide detailed information on their investments to the departments of insurance in the States in which they operate, although these data are not generally available to the general public. We do not believe, therefore, that annual publication of the investment portfolios of pension funds would be harmful either to the companies concerned or the investing public.

The attitude that a pension program, even though a noncontributory one, is the sole proprietary interest of the employer is fallacious. Tax laws, court decisions and even the employer's willingness to bargain on pension benefits refute the assumption of such arbitrary policies.

Permitting employees to have information regarding the operations of pension funds on which their future security rests does not involve "sharing the management" as some corporations evidently fear.

In the opinion of the subcommittee, disclosure by all pension programs of pertinent information relative to their holdings cannot fail to have a salutary effect in this field. Pertinent information should as a minimum include: (1) listing, by type, all investments including those in securities or properties of the trustor, with the aggregate cost or present value, whichever is the lesser, and the percentage of the total fund represented by each type; (2) listing in detail all investments in a particular security or property which exceed 5 percent of the total amount of the security issued or of the value of the property; and (3) listing in detail all investments or property which represent 5 percent or more of the holdings of the pension fund.

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III. INADEQUACIES OF FEDERAL AND STATE LAWS

It has been asserted that welfare and pension funds are adequately protected by existing laws and regulations, both on the State and Federal level. This is a misconception.

Within its limits of time and manpower, the subcommittee staff undertook to survey the extent of existing legislation regarding welfare and pension funds at State and Federal levels.

A. EXISTING FEDERAL CONTROL OF WELFARE AND PENSION FUNDS

In brief, there are two Federal statutes which have some application to welfare and pension plans. They are the Labor Management Relations Act of 1947[1] and the Internal Revenue Code of 1954.

Mr. Rex A. Collings, Jr., Chief of the General Crimes Section of the Department of Justice, testified at the July 20, 1955, subcommittee hearing relating to the adequacy of the Labor Management Relations Act, in part, as follows:

> * * * We have strong doubts that existing Federal legislation is adequate to cope with the problem of conserving welfare and pension funds for the exclusive use of the employee beneficiaries.
>
> Section 302 of the Labor Management Relations Act, 1947 (29 U. S. C. 186) permits the establishment of welfare and pension funds, but does not provide any penalty for their maladministration. Section 302, with certain exceptions, prohibits payments by an employer to the representatives of his employees, and prohibits representatives from receiving such payments. One exception is payments to welfare and pension funds. Such payments are permitted provided that the funds are held in trust for the employees for pensions, medical care, unemployment benefits, and the like.
>
> But there is no requirement that the funds be efficiently managed, and no prohibition against exorbitant salaries and expenses—against milking of a fund by its promoters. As long as the fund is established in accordance with the statutory language, there is no specific statute which makes it a Federal offense for the managers of the trust to ransack or loot the trust corpus.
>
> * * * * * * *
>
> No remedy is provided by section 302 for abuse of the trust purposes. Unless some other Federal statute is violated, abuses must be corrected in State courts, either through civil actions brought by employees against the trustees for breach

[1] 29 U. S. C. 186 (sec. 302).

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of their duties, or criminal prosecutions for embezzlement or misapplication. The parties to the welfare and pension fund agreements are private persons.

* * * * * * *

* * * Section 302 does not provide a remedy in our opinion. To go on, you know frauds practiced by one private person against another ordinarily are not within the purview of Federal statutes. Of course, there are exceptions, for example, where there is mail fraud or fraud by wire. Abuses of welfare and pension funds may perchance fall within the purview of such statutes, but no Federal statute is specifically designed to combat such abuses.

There are other problems inherent in section 302. Section 302 only prohibits payments by an employer to representatives of his employees which do not fall within certain exceptions. It does not prohibit payments to others. There is some doubt that the section prohibits payments to a board of trustees composed of representatives both of employer and employees, even if not set up for a purpose permitted by the section.

In a very recent case, *United Marine Division* v. *Essex Transportation Co.* (216 F. 2d 410), the Court of Appeals for the Third Circuit held that trustees of a welfare fund chosen half by the employers' association and half by a union are not representatives of the employees within the meaning of section 302. There is an earlier case to the same effect, *Rice-Stix Co.* v. *St. Louis Institute* (22 L. R. R. M. 2528, E. D. Mo., No. 5787, June 15, 1948). The Government was not a party in either of these cases. Nevertheless, they pose a very difficult problem of interpretation of section 302 so as to make it effective. If these cases are correct, there is a very serious loophole in the law.

I note that the committee on labor and social security legislation of the Association of the Bar of the City of New York, in a report dated May 19, 1955, has expressed the view that these decisions "have to a substantial extent freed welfare funds from Federal control since trust funds are not covered by the act."

Another recent case is also of interest in this connection, although it did not involve a welfare and pension fund. In *United States* v. *Ryan*, decided July 1, 1955, the second circuit held that the term "representative" in section 302 means an exclusive bargaining representative, and that the officer of the union which was the exclusive bargaining representative was not a representative within the meaning of section 302.

* * * * * * *

You have asked how many prosecutions have been instituted under section 302 (c) (5). The answer is none. In our opinion section 302 (c) (5) is not a penal clause. It does not of itself make any act or omission a criminal offense.[2]

Section 302 of the Labor Management Relations Act of 1947 purports to make illegal and punishable by fine or imprisonment, any

[2] Hearings, pt. 3, pp. 902–904.

payment by an employer to a representative of his employees, except under certain specified conditions. With respect to welfare and pension fund payments which are one of the exceptions, the section requires an equal employer-employee administration under a written agreement with tie-breaking provisions.

The act provides for an annual audit of the trust fund "available for inspection by interested persons at the principal office of the trust fund and at such places as may be designated in the written agreement; * * *" The history of the act shows that its draftsmen believed that disclosure of pertinent information would afford the beneficiaries of the funds adequate protection against arbitrary and capricious acts of their administrators. It would also provide them with the information they would need to protect their rights in court. But as was pointed out in the subcommittee's first interim report [3] this provision proved to be inadequate for at least 2 reasons: (1) as a result of the act's failure to specify the information to be included in the report, the usual report is not sufficiently detailed to disclose the nature of the fund's disbursements; and (2) the report usually is not given the wide distribution necessary for effective disclosure.

The act addresses itself to employer payments and delivery of "a thing of value" to representatives of his employees. Both the payments and delivery of "a thing of value" by the employers and their receipt or acceptance by the representatives are illegal. The act, however, exempts from this prohibition payments made to a trust fund for the purpose of providing welfare and pension benefits to the employees and their dependents. Thus, as pointed out by Mr. Collings, there is no penalty for abuses or maladministration.

The act deals with jointly managed plans; its scope does not include the great percentage of welfare plans, namely, all arrangements whereby the employer provides the benefits directly or through an insurer and all plans wherein the employer administers the plan. It also omits all arrangements whereby the benefits are provided by a union as long as the employer does not make a direct payment to the union.

The weaknesses of the act were discussed at some length in the first interim report of this subcommittee.[4]

The other Federal statute, the Internal Revenue Code, offers no real regulation or control of welfare plans and, because it was designed primarily for tax purposes, is only effective to a limited extent as regards pension plans. The interest of the Internal Revenue Service in these plans is limited to their tax aspects. Mr. Harold T. Swartz, Director of the Tax Rulings Division of the Internal Revenue Service, at a public hearing of the subcommittee on July 20, 1955, stated:

> I would like to emphasize that the principal function of the Internal Revenue Service is the collection of Federal taxes. There are more than 70 different internal-revenue taxes so imposed. The collection of these taxes involves the processing of nearly 95 million tax returns. Obviously, we can neither examine nor audit all of these returns. We must channel our limited examining manpower to the items which are believed to be the most productive. Accordingly, only

[3] Pp. 31–32, report of January 10, 1955.
[4] Ibid., pp. 26–33.

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> a small portion of our time can be devoted to examining into the annual information returns filed by exempt organizations.[5]

Under section 501 (c) (9) of the 1954 Code, voluntary employees' beneficiary associations are exempt from taxation after once qualifying and thereafter filing an annual information return. There is no penalty for failure to qualify or file the annual information return provided they actually qualify as an exempt organization. Actually only a minor percentage of welfare plans have qualified under this statute.

Employer contributions to welfare and pension plans are deductible as an ordinary and necessary business expense, under section 162 (a) (1) of the code which permits reasonable deductions for salaries or other compensation for personal services actually rendered. However, there are no mathematical or actuarial limitations on welfare deductions as there are with regard to funded pension deductions.

Federal legislation does cover pension plans to a degree in that the Internal Revenue Code of 1954 sets up certain requirements that must be met before a fund, or payments into it, can gain tax exemption. This is covered by section 401 of the code which, in general, requires that (*a*) the plan must be for the exclusive benefit of the employees or their beneficiaries; (*b*) no part of the trust fund or the income may revert to the employer; and (*c*) eligibility requirements, contributions, and benefits must not discriminate in favor of officers or supervisors.

A plan may lose its tax-exempt qualification if it engages in any of a list of "prohibited transactions," most of which involve dealings between the trustee and the entity which set up the trust that would benefit the concern to the detriment of the employees. However, as pointed out by Mr. Swartz during his testimony, "It should be understood that the transactions are not actually forbidden by the revenue laws but are 'prohibited' only in the sense of being inconsistent with continued tax privileges." It is apparent then that "regulation" by the Internal Revenue Service does not regulate as such, but merely allows certain tax exemptions in return for compliance. Mr. Swartz made this position clear when he told the subcommittee, "In seeing that the taxes levied by Congress are paid, the Revenue Service does not seek to act as a regulatory agency."[6]

There are some 28,000 information returns filed annually which include tax-exempt pension, profit-sharing, stock bonus, and annuity plans.

Thus, with the exception of the ineffective sections of the Labor-Management Relations Act, 1947, and the Internal Revenue Code, as discussed above, there presently exists no Federal statute, regulation, or authority which attempts to protect the rights of the beneficiaries of welfare and pension plans.

B. WEAKNESSES OF STATE REGULATION OF WELFARE AND PENSION PROGRAMS

The subcommittee staff undertook a study of the insurance, banking, and trust laws of eight States—California, Connecticut, Georgia,

[5] Hearings, pt. 3, p. 847.
[6] Ibid., p. 838.

Illinois, Massachusetts, Missouri, Pennsylvania, and Texas—to determine the extent to which welfare funds are regulated by State authority. These States were selected because of diversified industry, degree of unionization, and insurance activity. The detailed results of that study are contained in the first interim report of the subcommittee. In summary, the report states:

> With the exception of California and Massachusetts, where attempts have been made to regulate the activities of some types of pension associations, there is no indication that the States have thus far concerned themselves with the problem of the regulation of welfare and pension trust funds as separate legal entities.[7]

Since that report, New York and Washington have enacted legislation giving to the commissioner of insurance power to inspect all trusteed welfare and pension funds. Specifically excluded are funds wherein a bank is trustee. Also excluded are plans in which there is no settlor-trustee relationship, but merely direct payment by the employer of the benefits. New York, in 1955, attempted to enact legislation regulating certain types of welfare funds, but this bill was vetoed. A bill embodying the principle of disclosure and applying to certain types of welfare plans was passed in the present session of the New York State Legislature, but has not been acted upon by the Governor.

In 1954 the Chamber of Commerce of the United States sent a questionnaire to the insurance commissioner of each State on the extent of regulation of welfare funds or insurance programs administered by a union or an employer. The various replies of the States were tabulated in a report of the chamber dated September 15, 1954, which indicates that almost without exception the States do not regulate the administration of these programs.

The States have legislation, regulation, and control in the general field of insurance which pertain to regular insurance companies and, of course, a large percentage of welfare plans are commercially insured. There has been little effort to regulate self-insured welfare programs.

Regulation of insurance is an area almost entirely dominated by the States. The extent is clearly determinable by reference to three important legal landmarks.

In 1869, the Supreme Court held that "issuing a policy of insurance is not a transaction of commerce" (*Paul* v. *Virginia*, 8 Wall. 168, 183). This "hands off" doctrine prevailed for 75 years until 1944 when the Court, in *United States* v. *Southeastern Underwriters Assn.* (322 U. S. 533), overruled the Paul case and in connection with an antitrust action held that interstate insurance contracts are subject to Federal legislation. Apparently as a result of this decision, many insurance companies questioned the authority of the State departments to regulate while others refused outright to comply with State regulations.[8]

[7] P. 34, report of January 10, 1955.

[8] "* * * Already many insurance companies have refused, while others have threatened refusal, to comply with State tax laws, as well as with other State regulations, on the ground that to do so, when such laws may subsequently be held unconstitutional in keeping with the precedent-smashing decision in the Southeastern Underwriters case, will subject insurance executives to both civil and criminal actions for misappropriation of company funds" (H. Rept. No. 143, Feb. 13, 1945, accompanying Public Law 15; 1945, U. S. C. Cong. Serv. 671).

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Congress, the following year, passed Public Law 15, 79th Congress (1945)[9] which removed existing doubts as to the right of the States to (*a*) regulate and tax the business of insurance, and (*b*) secure more adequate regulation of such business.

In 1955 the district attorney of New York County attempted to prosecute a welfare trustee, Sol Cilento of the Distillery Workers, for misuse of welfare funds, the indictment alleging almost $300,000 in kickbacks of welfare funds to the trustee and 2 notorious underworld figures. The indictments were reluctantly dismissed, the trial judge stating, "Unfortunately, a trustee of a union welfare fund, except when he commits larceny, is not chargeable with a crime for violating his trust even though he simultaneously be an officer of the union." He urged the enactment of laws to punish such "morally reprehensible and ethically indefensible acts." [10]

In general, the State laws relate to certain technical matters such as the definition of "group insurance," minimum number of persons in a group, etc. The law of New York State is the most comprehensive of the various State laws. It is important because of its far-reaching influence. The importance of New York State as an industrial, commercial, and financial center makes it highly desirable for an insurance carrier to do business in that State. In order to do so an insurance company, regardless of the location of its home office, must conform to the New York State regulations. This applies not only to its New York business but to all of its business—anywhere in the country. The State of New York holds that the manner in which an insurance company does business anywhere affects its policyholders in New York State. Thus, a company's business anywhere in the United States must meet New York State standards. In effect, New York State

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[9] "The Congress hereby declares that the continued regulation and taxation by the several States of the business of insurance is in the public interest, and that silence on the part of Congress shall not be construed to impose any barrier to the regulation or taxation of such business by the several States.

"SEC. 2. (a) The business of insurance, and every person engaged therein, shall be subject to the laws of the several States which relate to the regulation or taxation of such business.

"(b) No Act of Congress shall be construed to invalidate, impair, or supersede any law enacted by any State for the purpose of regulating the business of insurance or which imposes a fee or tax upon such business, unless such act specifically relates to the business of insurance: *Provided*, That after January 1, 1948, the Act of July 2, 1890, as amended, known as the Sherman Act,[a] and the Act of October 15, 1914, as amended, known as the Clayton Act,[b] and the Act of September 26, 1914, known as the Federal Trade Commission Act, as amended,[c] shall be applicable to the business of insurance to the extent that such business is not regulated by State law.

"SEC. 3. (a) Until January 1, 1948, the Act of July 2, 1890, as amended, known as the Sherman Act,[a] and the Act of October 15, 1914, as amended, known as the Clayton Act,[b] and the Act of September 26, 1914, known as the Federal Trade Commission Act, as amended,[c] and the Act of June 19, 1936, known as the Robinson-Patman Antidiscrimination Act,[d] shall not apply to the business of insurance or to acts in the conduct thereof.

"(b) Nothing contained in this Act shall render the said Sherman Act inapplicable to any agreement to boycott, coerce, or intimidate, or act of boycott, coercion, or intimidation.

"SEC. 4. Nothing contained in this Act shall be construed to affect in any manner the application to the business of insurance of the Act of July 5, 1935, as amended known as the National Labor Relations Act,[e] or the Act of June 25, 1938, as amended, known as the Fair Labor Standards Act of 1938,[f] or the Act of June 5, 1920, known as the Merchant Marine Act, 1920.[g]

"SEC. 5. As used in this Act, the term 'State' includes the several States, Alaska, Hawaii, Puerto Rico, and the District of Columbia.

"SEC. 6. If any provision of this Act, or the application of such provision to any person or circumstances, shall be held invalid, the remainder of the Act, and the application of such provision to persons or circumstances other than those as to which it is held invalid, shall not be affected.

"Approved March 9, 1945."

[a] 15 U. S. C. A., secs. 1–7, 15, note.
[b] 15 U. S. C. A., sec. 12 et seq.
[c] 15 U. S. C. A., secs. 41–51.
[d] 15 U. S. C. A., secs. 13, 13a, 13b, 21a.
[e] 29 U. S. C. A., sec. 151 et seq.
[f] 29 U. S. C. A., sec. 201 et seq.
[g] 46 U. S. C. A., sec. 861 et seq.

[10] *People* v. *Cilento*, 143 N. Y. S. 2d 705.

regulates the insurance industry of the United States insofar as it is conducted by companies doing business in New York State.[11] Some of the industrial States, such as Illinois, have no legislation applying specifically to group insurance. In brief, New York State insurance regulations include—

(*a*) Filing of specimen copies of insurance contracts and certificates;

(*b*) Filing of schedules of commissions and of administration fees, since 1955;

(*c*) The use of a standard premium rate on life insurance for the first year;

(*d*) Adherence to rates filed with the State department of insurance for the first year on accident and health insurance;

(*e*) Charging of commissions on every case;

(*f*) Commissions to be paid only to licensed agents and brokers;

(*g*) Service fees to be paid only to persons who perform functions that would otherwise be performed by insurance carriers, and

(*h*) Uniform treatment of policyholders.

In spite of these regulations, the subcommittee has found that even with respect to group insurance purchased in New York State, there were instances in which commissions and fees were high enough to permit splitting them among various individuals. It found that in many cases, commissions were split with persons who were not licensed agents or brokers but who were, in fact, in a position to dictate which agent and insurance carrier would get the business. It found instances in which administration fees were paid to individuals who performed no work in connection with the administration of the plans. It found, with respect to insurance company retentions, that equal treatment was not afforded the policyholders. It found that with respect to agents and carriers domiciled outside the State recourse, beyond that of canceling their licenses, was most difficult. Other instances of irregularity and abuse found by the subcommittee indicate that some of the States charter insurance companies and license agents and brokers with little investigation of their reputations. For example, the manner in which the control of American Continental Life Insurance Co. of Chicago was transferred to the Inciso group, leaves much to be desired.

Of necessity, any discussion of State controls of pension funds requires an understanding of certain principles of trust law. Obviously a lengthy discussion of this subject cannot be undertaken in this report. Briefly, insofar as pensions are concerned, a trust arises by express agreement between the grantor or settlor (usually management) and the trustee, whereby the trustee invests the funds deposited with him for the benefit of the intended beneficiaries. It is a contract between private persons and, thus, the remedies are those of normal private contract litigation—an action for an accounting or for specific performance. Except in the rare case where larceny or embezzlement is committed, criminal laws are inoperative.

[11] The extent to which New York State regulates insurance companies domiciled in other States is illustrated by a recent ruling of the attorney general of New York State in which he ruled that the Connecticut General Life Insurance Co. of Hartford, Conn., cannot buy control of the National Fire Insurance Co., also of Hartford, without losing its New York license (reported in the National Underwriter, Jan. 26, 1956, p. 3, "New York Says Life Insurer Can't Own Fire Company").

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The subcommittee in its first interim report discussed the rights and remedies of beneficiaries of trusts established to administer welfare and pension plans. As copies of that report are no longer available and the discussion is deemed sufficiently important, it is set out below:

> * * * In the leading case of *Van Horn* v. *Lewis* (79 F. Supp. 541), the welfare and retirement fund of the United Mine Workers was held to be in the nature of a beneficial charitable trust. It has been said that health and welfare trusts which are the result of collective-bargaining agreements may properly be classified as charitable trusts inasmuch as they are for social betterment as against private gain and they are of such size and the membership qualifications are so broad that the trust provides substantial benefits of a charitable nature to the community in general.[9] If it may be assumed that welfare and pension trusts arising out of collective bargaining are, in fact, in the nature of beneficial charitable trusts, then enforcement of the rights of the beneficiaries has been a responsibility of the State since 1601 when the Statute of Charitable Uses was enacted by Parliament (43 Eliz., ch. 4). Some States have provided by statute that an action may be brought by the attorney general upon his own information or upon the complaint of any interested party (which would include a beneficiary or beneficiaries) for the enforcement of a charitable trust. Thus, in Wisconsin, it is provided that if the attorney general refuses to act, a specified number of "interested parties" may bring an action in the name of the State on their own complaint.[10] In addition, several States have statutes giving the attorney general or other State agencies the authority to require financial data and otherwise exercise supervision over charitable trusts.[11]
>
> The power, however, is not exclusively vested in the attorney general of the State. It is generally held that a person who has a special interest in the performance of a charitable trust can bring an action for its enforcement.[12]
>
> While the States already have ample authority to act through their attorneys general following the commission of a breach of trust or the commission of any act of malfeasance in the administering of trust funds located within the State, there is a definite and growing trend toward the enactment of legislation at the State level which would set up administrative controls to prevent abuses by trustees and administrators of charitable trusts.[13]
>
> Federal courts also have warned that abuses in the administration of health and welfare funds will not be tolerated:
>
> "The burdening of the fund with undue administrative expenses or lush salaries for union officials will not be tolerated;

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[9] See Bogert, Trusts and Trustees, vol. 2A, p. 20 and also see *Union Pacific Railroad Company* v. *Artist*, 60 Fed. 365; *Guilford* v. *Arthur*, 158 Ill. 600, 41 N. E. 1009.

[10] Wisconsin Laws, 1945, ch. 458, p. 822.

[11] Cf. New Hampshire Revised Laws, 1942, ch. 24, sec. 13A–13N, as amended; Rhode Island Laws, 1950, ch. 2617, as amended by laws 1951, ch. 2852; Massachusetts General Laws, ch. 217, sec. 19, as amended.

[12] See Scott, Trusts, p. 2054.

[13] See Bogert, Proposed Legislation Regarding State Supervision of Charities, 52 Michigan Law Review 633 (March 1954).

excessive restrictions, either in the insurance policies or in the bylaws and regulations, or the providing of small benefits to the employee members in proportion to the amount contributed by the employee parties or the premiums paid, taking into consideration the risk involved, will cause more than a lifting of the eyebrows (*Upholsterers International Union* v. *Leathercraft Furniture Company*, (1949) D. C. E. D., Pa., 82 F. Supp. 570)."

As to the liability of trustees of health and welfare funds, the court in this case also said:

"As seen in *United Garment Workers of America* v. *Jacob Reed's Sons, et al.* (D. C. E. D., Pa., 83 F. Supp. 49), at page 52: 'The court considers such funds as rather sacred, and it is the purpose of the law that they be available when due under the contract.' Therefore, whenever the trustees use, or attempt to use, directly or indirectly, the fund for a purpose other than for the sole and exclusive benefit of the employee members, this court, when called upon, will enjoin the trustees from making the improper expenditure * * *. A provision in the bylaws or regulations denying the employee members the right to resort to the courts to protect their beneficial interest in the fund is of no legal effect."

Two recent cases indicate that the courts will look with favor upon the petition of a beneficiary even though his right to benefits has not vested. For example, in the case of *Bednar* v. *United Mine Workers Welfare and Retirement Fund, et al.* (DC, D. of C. (1953); 25 CCH Labor Cases, 68,352), a miner otherwise qualified was denied a pension by the fund's board of trustees because he had failed to work the last 2 days (March 29 and 30, 1946) of the eligibility period. As a result of a strike the mine then was shut down for 2 months. The miner did report again for work on June 3, 1946, after operations at the mine had been resumed, but was told that he could not be employed because of his age. He had received a check dated March 28, 1946, representing his pay for the period ending on that day, which was the last day he actually worked. The defense contended that the check was proof that the miner's employment had been severed on that date. The court held that the miner was entitled to a pension and that he was employed on a date subsequent to May 28, 1946, pointing out that it was through no fault of his that he was unable to work during the period of the shutdown. The court said, "The court is not willing to make a determination that a miner who has worked more than 20 years in the mining industry, and who for 2 days does not work is to be deprived of his pension rights because of failure to work on those 2 days." The court further refused to accept the defense's contention that because the miner received his last check on March 28, 1946, that was sufficient ground for holding that his employment with the industry had been severed on that date.

Similarly, in the case of *Forrish* v. *Kennedy* (Pa.; 1954 Sup. Ct.; 105 A. (2d) 67; 25 CCH Labor Cases, 68, 434) it was held that the trustees of a pension fund could not deny a pension to a coal miner who satisffied the eligibility require-

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ments except for violation of the union's constitution which prohibits members of the union from engaging in the sale of intoxicating liquors. In 1909 the plaintiff in the case became a member of the United Miner Workers Union and maintained that membership by paying all dues and assessments until his retirement. From 1947 to 1950, he ran a restaurant and bar where intoxicating liquor was sold. The officers of his local union had full knowledge of his activities, but continued to accept his payments of dues and assessments. The trust agreement under which the trustees operated provided that the trustees would have full authority on questions of eligibility for benefits. They adopted a rule that membership in good standing in the union, which was a condition precedent to eligibility for benefits, must be certified in each case by the local and district union officers. It also provided that the international union was to have final say on all membership matters. After the plaintiff had became 60 years of age, an injury caused his retirement and he applied for a pension. The local union certified his membership in the union, which was confirmed by the district. However, the trustees refused to pay the plaintiff the pension, having determined in their own discretion that he was not a member of the union in good standing when he applied for his pension because of his having engaged in the sale of intoxicating liquor.

The court, in granting the plaintiff's petition, held that since the purpose of the trust was to provide, among other things, pensions on retirement and that the plaintiff had met all the requirements, including certification of membership in the union, he could not be denied a pension by the trustees. The court said that the purposes of a trust cannot be frustrated at the whim and caprice of the trustees and that courts of equity can always intervene to control such an unreasonable exercise of discretion.

It would thus appear that beneficiaries of welfare and pension trust funds established through collective bargaining have a means of protecting their rights and interests through the courts. However, as a practical matter, it is doubtful whether the beneficiaries are aware of the remedies so afforded or whether they are in any position to pursue a course of action to effectuate those remedies. If the trust intrument denies to the beneficiaries any right, title, or interest in or to the funds of the trust and if a beneficiary's rights remain potential rather than vested, a question immediately arises as to whether or not such beneficiary would have any standing in court. The very fact that there is a scarcity of case law involving the rights and remedies of beneficiaries of employee welfare and pension trust funds under either Federal or State law, is reason enough to doubt the effectiveness of available legal remedies.

It is a valid conclusion that the beneficiaries of these welfare and pension funds are confronted with definite problems in getting into court and successfully pleading a cause of action. As a practical matter, an employee-beneficiary will

> probably think twice before agreeing to undergo the cost and risk of a suit which constitutes a challenge both to the power and authority of a board of trustees (which can grant or withhold benefits) and, in most cases, to the power and authority of his own union's leadership.
>
> It is the consensus of the subcommittee that current State insurance, investment, and trust laws, in their general application, do not afford the means for effective regulation of private employee welfare and pension funds as separate and distinct legal entities. Furthermore, we are by no means sure that the legal rights and remedies available to the beneficiaries are, in themselves, fully adequate to protect their interests. It is our belief that the conservation of the funds and the protection of the rights and interests of the beneficiaries can be best assured not so much by resort to legal remedies, but through strengthening administrative controls both at the State and National levels * * *.[12]

The application of well-established doctrines of trust law to the field of employee benefit trust funds is a most difficult task. To an ever-increasing extent these funds are leaving the realm of usually understood trust principles and are posing an entirely new concept for dealing with property that has no parallel elsewhere in the law. In the majority of pension plans, there is no vesting and the intended beneficiaries at any given time consist of a varying number of employees who ultimately may, or may not, retire on pension. Thus, unless he has a vested interest, or until he actually retires and fails to receive his pension check, an employee has no legal status to demand anything of a trustee.

Another shortcoming of present pension trust understanding, bottomed on the same principle, is the unavailability to the employee of sufficient factual data to commence a lawsuit. Even before considering suit, one must be armed with somewhat more than suspicion. There must be some knowledge, no matter how vague, that the trustee acted improperly in accordance with the trust agreement. But the employee cannot get this information. Under the usual pension trust agreement only the settlor receives a copy of the trustees' report wherein would lie the basis for any possible legal action. The employee is excluded from receiving these data, notwithstanding the fact that he has more real interest in conserving the assets than has the settlor. The money is paid into the fund in return for his labor. He and his beneficiaries stand to suffer the loss if the funds are not available years hence, when he retires. A plan might be the subject of improper manipulation and dissipation for years, but as long as his checks come, the employee is powerless to hold rein over the disposition of the funds. Failure to disclose does violence to the very principle of funding, which is the heart of any sound plan.

Many of the rules applicable to conventional trusts are meaningless as to employee benefit trust funds. The settlor of the trust and the administrator are often the same person, in the corporate sense. The principal officers of the settlor corporation make up the "pension

[12] Interim Report, January 10, 1955, pp. 36-39.

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committee," which, under the terms of the trust agreement, actually controls the disposition of the trust funds. As the administrator or trustee (not to be confused with a corporate trustee) in effect reports only to himself, there is no one to say he acted imprudently.

The logical conclusion is that present statutes are wholly inadequate and that there is no legislation at either the Federal or State level that will adequately safeguard these welfare and pension funds or the equities of their intended beneficiaries.

IV. NEED FOR FEDERAL LEGISLATION

Welfare and pension plans have mushroomed into a factor of major economic importance. Abuses, problems and weaknesses have hampered their effectiveness and will increasingly continue to plague them under the present lack of regulation. It is clear that in order to protect adequately the beneficiaries of these programs some action must be taken.

The major problem, the subcommittee has concluded from its studies and investigations, is one of assuring the immediate and long-range stability of private pension and welfare programs. As shocking as the cases of dishonesty and fund looting have been, and great as the need is to bring them under control, the greater objective is the promulgation of sound standards to assure most effectively the maximum usefulness and safety of these programs in order that they may better withstand the contingencies against which they were established. The breakdown of any significant part of either the pension or the welfare programs could, and undoubtedly would, amount to a major setback to our economy.

Poor management, no matter how well-intended, bad investments, lack of preparation for emergency conditions, or lack of managerial skill, can work as much damage to these programs as flagrant dishonesty. The overall need is for these programs to be carefully and wisely managed with the minimum of detailed regulation. Subsidiary to that need is the requirement that there be severe legal penalties applicable to the dishonest.

A. THE ALTERNATIVES

One alternative which has been suggested is that the Congress wait for the States to act in this field. The States, with a few exceptions, have not taken action. Can it be taken for granted that they will act? Or that they would act uniformly? Or that in every case the action would be effective? In many of these programs, the employers, unions, and insurance firms operate across State lines. The abuses and problems discovered cut across the broad pattern of business-labor relations, and across State borders.

Business firms are given a Federal tax credit for their contributions to these programs and, in producing goods or services, almost universally employ the facilities of interstate commerce. Collective bargaining agreements may involve firms or plans in several States. Organized labor is recognized as being of interstate and national composition.

To propose purely State action is to suggest that a problem of national scope be chopped into 48 sections, to be treated as each State legislature may dispose. Public interest directs that such a serious problem not be treated in a piecemeal fashion.

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Another proposal suggests the requirement of regular auditing and reporting to the beneficiaries, but no reporting to a Federal agency. This approach appears inadequate to take care of the many problems posed.

Another suggestion has been made that Congress enact legislation for complete regulation of these programs at the Federal level. Obviously, this would impose a staggering load upon the Government and, upon the basis of investigation to date, the necessity for it has not been proved.

Ills and dangers which are demonstrably an element in present welfare programs can be lessened without detailed Federal regulation beyond the point which we propose.

The subcommittee proposes a Federal disclosure act. This is a moderate and sound approach. It leaves room for the States to take whatever additional action they may find necessary, without creating an area of conflict between the Federal and State jurisdictions. It should not interfere with State statutes regulating insurance companies and banks, the laws on trusts, or other such matters.

The subcommittee has come to its decision in favor of disclosure with considerable reluctance. However, no other decision is possible in the light of the evidence before us.

It is recognized that reporting will place an additional burden upon many corporations and unions. But, we believe that as the absolute minimum, such reports are necessary for the protection of the beneficiaries. We believe that the necessity for preparing such reports and furnishing annual audits will lead to more careful accounting systems, better management of the programs, sounder investments, more responsible trusteeship, and active interest on the part of employers and employees, and, in conjunction with criminal sanctions imposed, will deter dishonesty.

The Government grants a tax credit for employer contributions to these programs; it has a right to require that reports be rendered, showing in reasonable detail their stewardship. To grant tax credits for money that is placed in these programs which then, because of inadequate regulation, is squandered, embezzled, sunk in extreme risks, or otherwise lost to the beneficiaries, is foolish policy. An estimated $6.5 billion of annual contributions to these programs demands Federal attention.

Certain penalties which we propose for willful embezzlement, conversion, false reporting, failure to file reports, or resistance to field investigations through the withholding or destruction of records, are moderately severe. Legislation must be made effective.

In addition, a disclosure act should spell out in detail what plans should be required to register, what plans should be required to report and disclose, and to whom, because an administrative agency should not be burdened nor vested with such discretion.

The administrative agency chosen to enforce this act should make a continuing study of the reports and the problems as disclosed by them. This study should be exhaustive, proceeding from the point at which the subcommittee has terminated its inquiry. Prior to the termination of the act, and based upon its studies and 2 years' experience with disclosure, it should make a comprehensive report to the Congress, outlining its findings, its evaluation of the act, and its recom-

mendations with respect to the continuance, simplification or broadening of legislation.

It is our desire to make the disclosure act an effective instrument to safeguard these vast programs, but at the same time to make it the least burdensome possible. We believe that with accurate and adequate accounting, the annual audit, and an open-faced exchange of information between the beneficiaries involved and others participating in the programs, the burden within a year of the enactment of the act will prove to be very reasonable and the security given the beneficiaries will be greatly enhanced.

We believe that business, unions, insurance companies, banks, and the tens of millions of beneficiaries, as well as the Nation generally, will applaud and support this reasonable objective. We believe also that once they have undertaken the proposed program, no group would willingly forego its salutary effects.

B. REGISTRATION, REPORTING, AND DISCLOSURE

The subcommittee recommends the enactment of a 3-year Federal registration, reporting, and disclosure act which would be applicable to all types of employee welfare and pension benefit plans.

1. REGISTRATION

All employee welfare and pension benefit plans covering 25 or more employees should register with a Federal administrative agency within 90 days of the enactment of this act or the establishment of plans subsequent thereto. This registration should furnish identifying information—namely, size and type of plan, whether or not collectively bargained, etc.—as prescribed by the act and the regulations of the agency.

2. REPORTING AND DISCLOSURE

(A) WHO SHALL FILE REPORTS?

(1) The subcommittee believes and recommends that reports be required of all private employers who employ 100 or more persons, and who have an employee welfare or pension program, or both. These plans cover the largest percentage of employees, by far; the moneys contributed by management to these plans are considered in the nature of employees' compensation, are exempted from taxation, and it is the exception rather than the rule for any accounting to be made to the employees.

Data from the old-age and survivors insurance program indicate that in first quarter 1953 there were some 82,000 employers with 50 or more employees and approximately 38,000 employers with 100 or more employees. The subcommittee estimates that about 30,000 reports would be filed under this requirement, and that the remainder would either be without programs, or included in multiemployer reports.

This volume of reports is a manageable one for an administering agency. It would cover the most important segments of business. It would relieve the smallest employers of the burden of reports; and it would not swamp the administrative agency with an impossible task.

Should reports be required of all employers having eight or more employees, according to OASI figures there could conceivably be

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554,000 reports filed annually. Should reports be required of those having 20 or more employees, the number could go to 211,000. Until experience proves otherwise, such a volume would be too burdensome an operation.

(2) The subcommittee recommends that reports be required of all jointly managed plans, both welfare and pension programs, which include 100 or more employees. While the best statistics available indicate that there would possibly be only some 1,500 welfare reports in this category, and some 200 pension reports—in neither case a large figure—the importance and growing scope of such jointly managed programs require that they report.

(3) Wholly union-administered plans covering 100 or more employee-members should also file reports. The evidence discloses mismanagement and corruption in some of these programs. It is estimated that probably 100 welfare-fund reports and 50 pension reports would initially be made pursuant to this requirement.

(4) Employee welfare and pension plans which include less than 100 employees but which in fact are operated or administered on some common basis with other plans (namely, common officers or administrators, union bargaining representatives, or employers, etc.) and which together include in the aggregate 100 or more employees, should also be required to report and disclose.

These requirements would call for an estimated total of between 30,000 and 40,000 annual reports.

Under the formula proposed above, many otherwise vexing problems are eliminated. Voluntary associations of individuals, such as lodges, etc., would not be required to report. The subcommittee can see no necessity for their reporting.

While small independent plans would not be required to comply with the reporting provisions of the act, they should be required to register and give the essential details relative to their plans. However, the administrative agency should have discretion to require reporting and disclosure by a particular plan or plans covering between 25 and 100 employees on an annual basis, or less frequently, and to require compliance with other provisions of the act when, in the opinion of the agency, such action is deemed necessary to accomplish the objectives of the act.

(B) WHEN SHOULD REPORT BE MADE?

It is recommended with respect to insured plans that an annual report be filed within 120 days after the anniversary date of the policy. With respect to noninsured plans, the report should be filed 120 days after the end of the fiscal year of the plan but not later than April 1 of each year if the plan or fund is on a calendar-year basis. This should permit an orderly flow of reports, but the administrative agency should have the discretion of varying the date for filing an annual report, if this is deemed necessary.

(C) WHAT INFORMATION SHOULD BE REPORTED?

It is our conclusion that reports prescribed by the administrative agency should include at least the following:

(1) The name, address, and description of the plan or program including type of plan and type of administration; schedule of benefits; copies of plan or trust agreement; names and addresses of all trustees

or administrators, and their official positions as employer, employee or union representatives; and names and addresses of all employers or unions participating in the plan.

(2) As this is a report, information in which would ultimately be for the beneficiaries, it would be meaningless unless it were based upon a comprehensive audit of the financial position and the operations of the plan by an independent public accountant in accordance with accepted standards of auditing.

The report should at least include a detailed statement of financial position, receipts, expenses, benefits, and reserves; the amount contributed by the employer and the number of employees covered; the amount contributed by the employees; and, with the exception of clerical employees, the salaries and fees paid by the plan or fund, to whom paid and in what amount and for what purposes.

If a commercial insurance carrier is involved, the premium rate and the total premium charges should be included, as well as the number of persons covered; total claims, dividends, commissions, fees, and retentions; the names and addresses of brokers or agents, or others to whom commissions or fees were paid; the amount paid to each and the services rendered for this compensation.

The insurance company should be required to furnish to each employer plan or fund, within 90 days after the end of each policy year, a statement which will provide the information needed for the report.

If the plan is self-insured or if an agency other than a commercial insurance carrier is employed, a financial statement of the employer plan, fund, or agency should be required.

Details relative to the manner in which reserves of welfare plans are held or invested should be reported as recommended under (3) (b) below.

(3) In addition, pension plans and funds of whatever type required to report, should file the following:

(a) If the plan is funded—a trusteed type of plan—reports should include the type and approved basis of funding, total contributions during the period covered by the report, broken down between employer and employees, current and past service liability, actuarial assumptions and number of employees covered, both retired and nonretired.

If a pension plan takes the form of a group annuity policy with a commercial insurance carrier or a deposit-administration-type plan, the same information should be filed. In addition, data with respect to all reserves accumulated under the plan should be included.

(b) The trusteed type plan should also provide a summary statement of reserves and investments, broken down by type of investment, such as common stock, preferred stock, Government securities, and so forth, giving the aggregate cost of each type of security or property or the present value, whichever is lower, as well as the percentage of the total fund represented by such type of security or property.

All investments in securities or properties of the trustor and all parties in interest should be listed in detail, giving information as to cost, present value, and percentage of total fund.

All investments in a particular security or property exceeding 5 percent of the fund should be listed in the same detail.

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(c) If an unfunded plan, the report should include the total amount paid to retired employees during the period covered by the report, the number of employees retired, details of any balance-sheet reserves set up, any available actuarial evaluations, liabilities imposed by contract, and a financial statement of the company or employer as of the last fiscal year.

(d) The administrative agency should have the authority to obtain any other appropriate information it requires in order to properly administer the act.

(D) HOW SHOULD REPORTS AND DISCLOSURE BE MADE?

The financial details of all reports should be certified to by an approved independent public accountant. If the plan is trusteed, the report should be attested to by the trustees; if a union-administered plan, by the president and treasurer of the union; if a jointly administered plan, by the joint trustees; and if unilaterally administered by the employer, by a principal officer of the employer.

We recommend that, in addition to being filed with the Federal agency and being made available for examination by interested parties both at the principal offices of the plan and at public document rooms of the Federal agency, the annual report or a summary thereof as prescribed by the agency shall be furnished to the beneficiaries of the plan or fund by personal delivery or mail.

The Federal agency to which reports should be made should have the authority to require whatever further distribution is deemed necessary or desirable.

3. TO WHAT FEDERAL AGENCY SHOULD REPORTS BE MADE?

The Department of Health, Education, and Welfare, the Internal Revenue Service, the Department of Labor, and the Securities and Exchange Commission have been suggested as agencies for the administration of a disclosure act. It has also been suggested that an independent agency be created.

The Department of Health, Education, and Welfare administers the Government's old age and survivors insurance program the objectives of which bear a close relationship to private employee welfare and pension programs. However, it performs relatively few administrative or enforcement duties other than recordkeeping and payment of social-security claims, since the Internal Revenue Service collects the payments under this system. Under existing law, the Department conducts studies, analyses and statistical surveys on which thousands of employers rely in formulating their programs. It also has an actuarial staff, a decided asset to any administrative agency of a disclosure act. It has the know-how to analyze the objectives of group insurance, pensions, and medical-care programs. It has undoubtedly given much thought to ways and means of providing such benefits to workers and their dependents. It is objective, having no interest in organized labor or management, as such. It has administrative facilities throughout the country. However, it has had no experience in the administration and enforcement of a disclosure statute.

The Internal Revenue Service has jurisdiction over the tax deductions allowed employers in financing their plans, and for tax and other purposes qualifies pension plans. It also has a complete enforcement

system. However, this agency is the very opposite of a disclosure agency; its primary function is to administer the tax laws. It is specifically precluded from disclosure of data with respect to any individual taxpayer, nor under existing law is it concerned, except incidentally, with the actuarial soundness of any program it qualifies for tax exemption.

The Department of Labor is intimately concerned with collective bargaining and management-labor relationships in the broad field of private enterprise. It maintains regional investigation branches and enforces the Wage and Hour Act. It has developed advanced study and survey techniques through the Bureau of Labor Statistics, although in the main of a quantitative nature. The department has not had material experience in the enforcement of a disclosure statute.

The Securities and Exchange Commission is the only Government agency with a long period of successful administration of disclosure statutes. It is an independent agency. Its existing tested administrative machinery is particularly adapted to the area of administration of disclosure, factfinding, detecting frauds, and irregularities in complicated financial operations. It is a relatively small agency, but has a core of 500 or 600 trained analysts, lawyers, and investigators of long experience in complicated financial analysis and investigation. It has nine regional offices and several branch offices throughout the country.

It has some degree of familiarity with welfare and pension plans, as many companies must file these plans incident to registration statements and proxy contests. It has recently made a survey of financial holdings of pension trusts.

The agency has contributed over the past 20 years to raising accounting standards and practices and making registered accountants more responsible in the performance of audits. Its experience in this area would bear directly on any responsibilities charged to it under a disclosure statute.

As previously stated, the subcommittee has no strong views as to which agency should administer this act. It believes that the choice of an administrative agency is secondary to the necessity of obtaining adequate legislation. The agency selected for the task will have the dual responsibilities of protecting the beneficiaries against abuses and unnecessary drains on the funds contributed to welfare and pension plans and, equally important, of studying and appraising the financial strength and weaknesses of the operation toward the end of greater stability.

For the present the subcommittee is inclined to favor the Securities and Exchange Commission as the agency to administer such an act because of its past experience and its organizational setup.

4. JURISDICTION

The authority to require registration, reporting, and disclosure as well as the enforcement functions incident thereto rests upon the taxing authority of the Federal Government, the general welfare interest, and the interstate character of the many elements connected with such plans.

Much of the money involved in such plans is exempt by law from Federal taxation. The income from such plans is also exempt.

The activities of such plans frequently extend over many States and use the instrumentalities of interstate commerce.

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5. PENALTIES

It is believed essential to prescribe penalties not only for failure to properly report and disclose pertinent facts required by law and the rules and regulations of the agency administering such a disclosure act but to prescribe severe penalties for dishonesty. Accordingly, it is recommended that the following penalties be prescribed:

(*a*) Any person who willfully violates or fails to comply with any provisions of the act or rules and regulations promulgated thereunder should be fined not more than $5,000 or imprisoned not more than 5 years, or both.

(*b*) Any person who makes a false statement or representation of a material fact knowing it to be false or who knowingly fails to disclose a material fact in any registration, report, or other document required to be submitted by the act or the rules and regulations thereunder should be fined not more than $5,000 or imprisoned not more than 5 years, or both.

(*c*) Any person who steals, unlawfully and willfully abstracts or converts to his own use or to the use of another, or embezzles any of the moneys, funds, securities, premiums, credits, property, or assets of any plan or fund should upon conviction thereof be fined not more than $10,000 or imprisoned not more than 5 years, or both.

(*d*) The agency administering a disclosure act should have the authority and jurisdiction to restrain violations of, and to enforce any duty created by, or to compel disclosure of any information required by the act or regulations.

6. ADVISORY COUNCIL

The subcommittee fully appreciates the burden being placed upon a Federal agency in the administration of this registration, reporting, and disclosure act. It is also believed that continued consideration should be given to the effectiveness of the administration and the provisions of the act. Accordingly, it is recommended that an Advisory Council be established which shall be representative of labor, management, insurance, banking, Government, and the general public. This Council should act in an advisory capacity to the administrative agency, conduct reviews of the administration of the act and make appropriate reports and recommendations. The Council should meet at least twice a year and at such other times as deemed necessary by the administrative agency or the Council.

(*a*) The subcommittee recommends that the Advisory Council consist of 13 members, to be appointed in the following manner:

A representative of the insurance industry, a representative of the banking industry, and two representatives of management, all appointed by the Federal agency administering the disclosure act;

Three representatives of labor, appointed by the Secretary of Labor;

Three representatives of the general public, appointed by the President of the United States;

The Secretary of Health, Education, and Welfare, the Secretary of Labor, and the Commissioner of Internal Revenue, shall serve as ex officio members of the Council.

(*b*) The members of the Advisory Council shall receive compensation of $50 per day and travel expenses, except for the ex officio members, while in meetings for the conduct of Council business.

(*c*) The Advisory Council may call upon the administrative agency for secretarial, clerical, and other services in connection with Council business.

(*d*) The Advisory Council may call upon other governmental agencies for statistical data, reports, and other information to assist it in the performance of its duties.

C. FEDERAL LEGISLATION ALREADY PROPOSED OR RECOMMENDED

There are 3 bills of a disclosure nature relating to welfare and pension plans which have been introduced in Congress during the past 2 sessions. In addition, the AFL–CIO has made comprehensive recommendations regarding a disclosure bill.

The bills already introduced and the AFL–CIO recommendations are described below:

1. S. 1717, 84TH CONGRESS, 1ST SESSION

Introduced April 18, 1955, by Senator Hubert Humphrey (Democrat, Minnessota). Originally introduced in the 83d Congress as S. 3649. This is a bill to amend the National Labor Relations Act and the Labor Management Relations Act of 1947 with respect to union-welfare funds. It would require unions to report the assets and liabilities of any trust fund which the union has established in accordance with section 302 (c) of the Labor Management Relations Act of 1947. The report, which would be filed with the Secretary of Labor, would include the amount and sources of payments to the fund; fund disbursements for benefits or other purposes, including salaries and expenses; investments of the fund; amounts paid to officer, employees, or agents as commissions, fees, gratuities, "or otherwise," by officers or agents of any insurance company doing business with the fund. The bill would require similar reports from employers who, pursuant to a collective-bargaining agreeement, have (1) established or maintain a trust fund for the purpose of providing welfare benefits to employees and their dependents or pension benefits to employees, and who (2) solely administer such fund.

It provides that certain processes of the National Labor Relations Board would not then be available to such unions and/or employers unless they can show that prior thereto, they filed the reports prescribed by this bill.

This bill would also prohibit investments by trust funds in securities other than those in which the funds of life-insurance companies may be legally invested under the laws of the State where the principal office of the fund is located.

2. S. 3051, 84TH CONGRESS, 2D SESSION

Introduced January 26, 1956, by Senators Irving M. Ives (Republican, New York) and Gordon Allott (Republican, Colorado) (by request). This is a bill to provide for registration and reporting of

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welfare and benefit plans and the reporting of appropriate information regarding their receipts, disbursements, assets, liabilities, and financial activities. The bill does not call for the amendment of any existing laws. Its jurisdiction is based on the Federal taxing authority and the general welfare. The registration and reporting requirements are applicable to all types of welfare or benefit plans without regard to method of establishment or administration. Responsibility for administration and enforcement of the bill is delegated to the Secretary of Labor. Penalties are provided for failure to comply with the provisions of the bill, and for false filing.

Under the provisions of this bill, the Secretary of Labor is given sole discretion as to the extent of the information which is to be filed by welfare and benefit plans. The bill does call for the reporting of "appropriate information respecting the receipts, disbursements, assets, liabilities, and financial activities" of these plans but further states that the "report shall include such information or documents relating to the incoming disbursements of the plan as the Secretary may prescribe." The Secretary is further authorized to exempt from any provision of the act any class or type of welfare or benefit plan, if he finds that the application of such provision to the plan is not required to effectuate the purpose of the act.

3. H. R. 2132—84TH CONGRESS, 1ST SESSION

Introduced January 13, 1955, by Mr. Ralph W. Gwinn (Republican, New York). Was originally introduced in the 83d Congress, 2d session, as H. R. 9705. This is a bill to amend section 302 of the Labor-Management Relations Act of 1947 with respect to jointly managed trust funds established for welfare and pension purposes. Prohibitions, already in parts (a) and (b) of section 302, making unlawful payments by an employer to a representative of his employees, and the receipt of any such payments by a representative, have been enlarged to preclude payments to, or receipt by, any fund of which the representative is an officer, director, trustee, or administrator. The bill requires that such funds operate under a trust agreement which, in addition to providing for an equal number of employee and employer trustees, shall also provide for a neutral trustee to be appointed by a Federal district court. It further requires that the trust agreement be filed under oath with the Department of Health, Education, and Welfare, and contain the detailed basis of benefit payments which shall be payable to all persons on whose behalf contributions to the fund are made without regard to union membership. The bill contains prohibitions with respect to trustees, union representatives, and employers connected with such funds in that it prevents them from receiving financial benefits, such as commissions, from the operation of the fund or the purchase of insurance by the fund, nor can they have an interest in, or serve as an officer of, any insurance carrier or broker through which the fund's insurance has been placed.

This bill requires that the trustees of such funds cause annual audits to be made, reports of which shall be filed and subscribed under oath with the Department of Health, Education, and Welfare, and be open to public inspection. The bill empowers the Secretary of the Depart-

ment to investigate allegations of noncompliance and to obtain court action for violations. It also contains criminal sanctions for willful violations of its provisions.

4. AFL-CIO LEGISLATIVE RECOMMENDATIONS

At the first constitutional convention of the AFL-CIO in New York City on December 7, 1955, a special committee presented a report embodying a number of recommendations and a comprehensive resolution pertaining to the administration and operation of welfare plans.

The committee recommended the enactment of Federal legislation which would require full disclosure of the financial operations of health, welfare and pension plans of all types. Those responsible for administration of such plans would be required to file detailed financial reports once each year with the Internal Revenue Service and to file certified duplicate copies with the Department of Labor where they would be made fully available to authorized parties. It was recommended that such a law should provide criminal penalties for nonfiling or false filing.

The committee also recommended State legislation to eliminate the mandatory charging of insurance commissions; prohibit the payment of excessive commissions and service charges to agents and brokers; the adoption and enforcement by the various State insurance commissions of a code of standards governing commissions and charges and a general tightening of the present State regulations of insurance. There was a further recommendation that additional legislation be enacted, if necessary, to require that fiduciary obligations applicable to various trustees under existing State laws be made to apply as well to trustees of health, welfare and pension plans.

This entire resolution was adopted by the convention. The portion thereof which deals with legislative recommendations is as follows:

> 2. Legislation should be enacted by the Congress of the United States, requiring annual reports and public disclosure of the financial operations of health, welfare and pension plans, including the details of the related financial transactions of insurance carriers and/or service agencies. Such legislation should contain the following essential elements:
>
> (*a*) The law should be adopted and administered at the Federal level rather than through a multiplicity of State agencies. Parties responsible for the operation of health and welfare plans should be required to file reports with the Federal Government, regardless of whether or not they also file with a State governmental agency. As an expression of the public interest in the operation of tax-exempt programs and so as to avoid the complexity of determining whether such plans are intrastate or interstate in character, the reporting and disclosure requirement should be made a function of the Federal tax power.
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> (*b*) The filing and disclosure requirement should apply to all types of group health, welfare and pension plans, including those administered unilaterally as well as those administered jointly.
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> (*c*) The party or parties responsible for the adminis-

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tration of a health, welfare or pension plan should be required to report the financial details of plan operations annually, on a standard form, with the Internal Revenue Service. The report should disclose, in adequate detail, the operations, transactions, expenses and investments of the fund. If a private insurance carrier is employed, the report should be accompanied by a statement from the carrier covering the particular account involved and containing a breakdown of premiums and retentions, showing the amount of dividends or rate credits paid or due, claims experience, the amount of commissions and service charges, and to whom those commissions and charges were paid.

The law should provide criminal penalties for nonfiling or false filing. While the Internal Revenue Service should not be granted the power to withhold approval of a health and welfare plan so as to delay its establishment or to require approval in advance of establishment as a condition of tax exemption, as a result of this legislation, the Service would be able to use the information contained in these reports as an aid to its normal enforcement operations.

(*d*) The party or parties responsible for filing these reports shall also, and at the same time, file a certified duplicate copy with the Department of Labor. It shall then be the duty of the Department of Labor to make these reports freely available on request to parties authorized to receive them—which shall include individual employees and their collective bargaining representatives, authorized Government agencies and committees of Congress, and State insurance departments. It shall also be the duty of the Department of Labor to undertake and to make public analytical studies and statistical summaries of the information derived through these reports.

The proposed statute should spell out in detail the information to be sought in a disclosure form with authority lodged in the Secretary of Labor to prescribe appropriate rules. In addition, since the whole field of health, welfare, and pension plans is still in such a fluid state, the law should require the establishment of an advisory committee to meet at regular intervals and to be composed of representatives from the important interest groups including organized labor. The purpose of the advisory committee would be to provide guidance to the government in the formulation of the disclosure schedule and in the administration of the act.

3. The legislation should be sought in the several States so as to achieve the following objectives:

(*a*) State insurance laws should be amended so that in cases where an agent or broker is not employed and no such services are rendered, the requirement that commis-

sions must nevertheless be paid to an agent or retained by the insurance carrier is eliminated.

(*b*) Where the services of agents or brokers are employed, the payment of excessive commissions and service charges should be banned. A code of standards governing commissions and charges should be adopted and enforced by state insurance commissions.

(*c*) State regulatory bodies governing insurance operations should be made more representative of the public and consumer interest. At present, State insurance commissions and departments tend to reflect and to be dominated by the special interests of the insurance industry.

(*d*) State insurance commissions and departments should be required to assume and exercise a greater degree of responsibility for the integrity, competence and character of agents and brokers who are licensed by the State. At the present time, such a license is virtually meaningless and offers no assurance to the public that a person having a license is reliable or subject to any really effective checks, surveillance or standards. As a minimum step, as a requirement for securing and holding a license, the records and accounts of agents and brokers should be subject to regular and thorough inspections, and they should be required to file regular reports with State insurance commissions disclosing and identifying every fee and commission received in connection with a group policy, issued as a part of a health and welfare plan, and the nature and purpose of expenditures made in the course of their business operations. The charging of excessive fees, commissions, or expenses and the making of unethical or improper payments to secure or to hold an account should result in the prompt revocation of the license to operate.

(*e*) Laws which, in a number of States, now stand, in the way of the development of consumer-sponsored, nonprofit medical service prepayment plans should be repealed, so as to make constructive alternatives to limited cash indemnity insurance plans more generally available to trade union and other consumer groups.

(*f*) Laws which, in a number of States, prohibit employers from withholding any part of wages earned by an employee (except taxes) without written authorization, should be amended so as to exempt from such prohibitions deductions made for health and welfare plans developed through collective bargaining by employers and bona fide trade unions.

(*g*) The fiduciary obligations generally applicable to trustees under State law should be applicable to trustees of health and welfare plans. If additional legislation is necessary to bring about the result, it should be enacted.

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APPENDIX I

Estimated number of employees and their dependents covered under private employee welfare and pension plans, end of 1954

[In thousands]

Type of benefit	Employees	Dependents	Total	Under collective bargaining			Not under collective bargaining		
				Employees	Dependents	Total	Employees	Dependents	Total
Welfare plans:									
Life insurance and death benefits	29,476	1,065	30,541	[1] 11,000	300	11,300	18,476	765	19,241
Group life insurance	[2] 27,476	[2] 1,065	28,541						
Self-insured death benefit plans	[3] 2,000		2,000						
Accidental death and dismemberment	[2] 13,972	(4)	(4)	[1] 6,000	(4)	(4)	7,972	(4)	(4)
Temporary disability benefits and sick leave	23,223	(4)	(4)	[1] 10,000	(4)	(4)	13,223	(4)	(4)
Group accident and health	[2] 18,323								
Company sick leave, formal plans only	[5] 3,300								
Union-administered plans	[5] 800								
Employee mutual benefit associations	[5] 800								
Health insurance or service:									
Hospitalization	31,267	44,290	75,557	[1] 12,000	[6] 17,000	29,000	19,267	27,290	46,557
Blue Cross and Blue Shield plans	[7] 14,601	[7] 21,012	[7] 35,613						
Insurance companies (group only)	[2] 14,281	[2] 20,729	35,010						
Other (independent plans, union, etc.)	[8] 2,385	[8] 2,549	4,934						
Surgical	28,309	38,974	67,283	[1] 11,000	[6] 15,000	26,000	17,309	23,974	41,283
Blue Shield and Blue Cross	[7] 10,731	[7] 15,443	26,174						
Insurance companies (group only)	[2] 14,993	[2] 20,654	35,647						
Other (independent plans, union, etc.)	[9] 2,585	2,877	5,462						
Medical	17,334	21,431	38,765	[1] 6,500	[6] 8,300	14,800	10,834	13,131	23,965
Blue Shield and Blue Cross	7,591	10,925	18,516						
Insurance companies (group only)	[2] 7,463	[2] 8,256	15,719						
Other (independent plans, union, etc.)	[8] 2,280	[8] 2,250	4,530						
Major medical (insurance companies)	[2] 796	[2] 1,093	1,889	(9)	(9)	(9)	(9)	(9)	(9)

Pension plans	[10] 12,500	(4)	(4)	[11] 7,200	(4)	(4)	5,300	(4)	(4)
Trusteed and pay-as-you-go	8,585			(9)			(9)		
Insured	[12] 3,915			(9)			(9)		

[1] Based on Department of Labor data for mid-1954 with allowance for railroad and other employees not included in Department of Labor survey.

[2] Life Insurance Association of America, Group Insurance and Group Annuity Coverage, 1954. The totals include group insurance written for nonemployee groups (storekeepers, lawyers, etc.) but the proportion of this in the total is believed to be negligible.

[3] Rough estimate, based on data for various trade union, employee benefit association, and company administered plans. Proceedings of 1954 convention of A. F. of L. (p. 74) show $26,760,000 in death benefits paid preceding year. It is estimated that about two-thirds of this is through self-administered programs.

[4] Not applicable.

[5] Health Insurance Council, The Extent of Voluntary Health Insurance Coverage in United States, 1953, p. 26.

[6] Assumes same ratio of dependents to employees as under all health programs. Includes all dependents of covered employees, not simply those for whom employers are paying part or all of cost under a collective bargaining agreement.

[7] Health Insurance Council, 1954 survey; employees covered under employee group plans are estimated to be 75 percent of total number of subscribers.

[8] Ibid., totals shown for independent plans after appropriate deductions for employees covered under other plans and for nonemployees and dependents.

[9] Not available.

[10] Estimate of Mrs. Van Eenam, Office of Chief Actuary, Social Security Administration, HEW.

[11] Based on Department of Labor data for mid-1954 with allowance for increase to end of 1954.

[12] Institute of Life Insurance, Tally of Life Insurance Statistics, May 1955.

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APPENDIX II

Contributions under private welfare and pension plans, 1954

[Millions of dollars]

Type of benefit	Total contributions	Employer contributions	Employee contributions
Welfare plans:			
Life insurance and death benefits	882.1	525.7	356.4
Group life insurance	[1] 846.5	[2] 507.9	[2] 338.6
Self-insured death benefit plans	[3] 35.6	[4] 17.8	[4] 17.8
Accidental death and dismemberment insurance	[1] 33.5	[2] 20.1	[2] 13.4
Temporary disability benefits and sick leave	684.6	464.8	219.8
Insured plans	[1] 473.6	[2] 283.8	[2] 189.8
Self-insured (trade union, employee benefit association, etc.)	[5] 60.0	[4] 30.0	[4] 30.0
Sick leave plans, private industry, formal plans only	[6] 151.0	151.0	----
Health insurance and services:			
Hospitalization	1,220.3	391.6	828.7
Blue Cross and Blue Shield plans	[7] 602.9	[8] 120.6	[8] 482.3
Insurance companies	[9] 502.4	[10] 201.0	[10] 301.4
All other, including independent plans	[11] 115.0	[11] 70.0	[11] 45.0
Surgical and medical	714.7	260.7	454.0
Blue Cross and Blue Shield plans	[7] 246.0	[8] 49.2	[8] 196.8
Insurance companies	[9] 353.7	[10] 141.5	[10] 212.2
All other, including independent plans	[11] 115.0	[11] 70.0	[11] 45.0
Major medical	[9] 18.0	[12] 9.0	[12] 9.0
Pension plans	3,293.0	2,866.0	427.0
Trusteed and pay-as-you-go	[13] 1,968.0	[13] 1,766.0	[13] 202.0
Insured	[14] 1,325.0	[14] 1,100.0	[14] 225.0
Total	6,846.2	4,537.9	2,308.3

[1] Life Insurance Association of America, Group Insurance and Group Annuity Coverage, 1954.

[2] On basis of rough estimate that employers pay 60 percent and employees 40 percent of overall cost.

[3] Death benefits paid under A. F. of L. trade-union self-insured plans estimated at $17.8 million (see note 3, Appendix I); contributions under other union and company and employee benefit association plans are estimated at a roughly equal amount.

[4] Estimated on basis of 50 percent from employer and 50 percent from employees or union members.

[5] Based on data in Voluntary Insurance Against Sickness, 1948–53 Estimates, Social Security Bulletin, December 1954, table 2. Contributions under self-insured plans were estimated at $53 million for 1953 and $45 million for 1952 and some increase in 1954 has been assumed.

[6] Total sick leave paid in 1954 estimated at $360 million (see note 6, Appendix I). Of 7.9 million employees covered under these plans in 1953, 4.6 million were public employees and 3.3 million (42 percent) were employees in private industry. Forty-two percent of $360 million equals $151 million.

[7] Based on data from Blue Cross and Blue Shield Commissions, subscription income from employee groups is estimated on basis from Blue Cross Commission at three-fourths of total subscription income.

[8] Rough estimate based on a 1953 Blue Cross study of the extent of employer participation in paying subscription costs.

[9] Health Insurance Council, unpublished data from 1954 Survey of Accident and Health Insurance; data obtained through Division of Research and Statistics, Social Security Administration, Department of Health, Education, and Welfare.

[10] On assumption that employers pay 40 percent; employees, 60 percent.

[11] Data from Division of Research and Statistics, Social Security Administration, Department of Health, Education, and Welfare. Based on data from Brewster, Agnes W., Independent Plans Providing Medical Care and Hospital Insurance: 1954 Survey, Social Security Bulletin, April 1955. Division of cost between employers and employees based largely on known situation for certain large plans.

[12] Rough estimate.

[13] Based on Securities and Exchange Commission survey of Corporate Pension Funds, 1954 (release of October 12, 1955) which shows $1,526 million under trusteed plans of employer contributions and $165 million of employee contributions. Profit-sharing plans with retirement features are included. Data for various jointly (employer-union) managed and union retirement funds indicate probable employee contributions of $120 million and employee contributions of $20 million to trusteed funds. Allowance for pension contributions to trusteed funds of banks and various nonprofit organizations (churches, universities, etc.) brings the totals to those shown.

[14] Institute of Life Insurance, Tally of Life Insurance Statistics, May 1955. These data from all life insurance companies show total contributions. It is believed that employers contribute a somewhat higher proportion of the total cost than under trusteed plans.

SUPPLEMENTAL VIEWS OF SENATOR ALLOTT

These supplemental views are filed by the undersigned to express primarily a point of view separate and distinct from some of the conclusions drawn by the report but not with the findings in general. It is filed not to express a divergence from the fine bipartisan cooperation existing throughout the hearings and in the writing of the report but rather to emphasize certain items which the writer feels have not received sufficient emphasis in the report.

The question has arisen and been discussed by the staff and by members of the committee at great length as to the status of pension and welfare funds. The view of the majority of the committee is that all welfare and pension funds are benefits "in the nature of compensation" because of (1) the recourse to tax benefits by employers, (2) the various NLRB and court decisions, and (3) the wage-stabilization regulations of the Defense Production Act of 1950. This point of view embraces all types of funds whether pension or welfare, unilateral or bilateral, self-managed or insured, contributory or noncontributory, bargained or not bargained, level of benefits or fixed contribution. During all these years the principle of disclosure has not applied where there was bargaining upon a level-of-benefits basis. Those who bargained in this manner did so with full knowledge that the cost to the employer, the operation, and the management of the fund was the exclusive right of the persons managing it. Had either the employee or employer desired otherwise, he would have bargained on another basis than level of benefits.

Therefore, in the approach that all pension and welfare funds should be included in registration, reporting, and disclosure it has seemed obvious that the passage of such legislation would, in effect, deprive the manager of the fund of long-existing legal rights. By the same token, it would appear that we are depriving management, unions, and the individual employee of the free right to contract and by such contract to place upon one party or the other a full responsibility, and in some cases the hazard of expense, for the management of a fund. In one of the best definitive analyses of the American way of life it has been said that among other rights is the right to contract about our own affairs. It is incumbent to point out that the passage of legislation in the form suggested in the report to include all welfare and pension funds would deprive management, unions, and labor of the right to contract in this one important aspect. It is the deprivation of this existing right which is the fundamental basis for filing these supplemental views.

The writer must state frankly that he has sought to draw the line somewhere in this field, exempting those plans where registration, reporting and disclosure are not needed as indicated by the hearings, and in a manner which is fair and just to all persons concerned. He has not been able to do so without leaving areas where injustice or needed supervision might occur. In the field of pensions, which are usually funded, there seems to be a much greater justification for legislation disclosing the nature of the fund than there would be in welfare funds which are generally not funded. The adoption of the

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principle of complete registration, reporting, and disclosure ends an era in which an employer may do anything in behalf of his employee without being liable for a complete accounting to the employee or the union. This would be modified to the extent that small employers are excepted.

The last point which it seems worthwhile to make and emphasize, although the report is not in disagreement in this respect, is that the following seem to be main areas of abuse in this field:

(1) Excessive commissions.

(2) Excessive administration fees.

(3) Use of administration expenses for purposes other than administration.

(4) Unequal treatment of insurees by insurance companies as to dividends or premium credits.

(5) Nepotism.

(6) Looting or embezzlement as well as gross misabuse of funds for "expenses" of fund officials.

(7) A failure to achieve under the Taft-Hartley Act a true dual administration of funds.

Of these it would seem that the primary responsibility and possibility of curative legislation must lie with the State legislative processes. For example, joint self-policing by insurance companies themselves and State legislation are the only effective methods by which decremental commission norms can be established. And, contra, Federal legislation would be comparatively ineffective unless accompanied by tremendous administrative cost. In view of the great strides made by insurance companies, management, organized labor, and State legislatures toward adequate self-policing and legislation, there is a danger of setting up excessive Federal legislation which would be dual in purpose. The staff of this committee estimate that from thirty to forty thousand reports would be required to be filed each year and the size of a staff for properly auditing and compiling statistical material can readily be seen.

An added point not included in the report is that disclosure as defined in any legislation should also include the complete auditing, or exchange of complete auditing information, as between the various parties involved in any particular fund. There are six parties who may have interests in any given fund: the employer, employee, union, management, trustees, and insurance company. Information as to dates, number of employees covered, dividends, and so forth, should flow freely from as many of these parties as are involved in any fund to be covered. Such a procedure, for example, would have prevented the looting of the funds of the Laundry Workers Union by Saperstein. In that case, there being no privity between the contributing employers and the insurance company, and no valid acceptance of responsibility for auditing by any of the other parties, it was possible and comparatively easy for the looting to be done as described in the report.

In conclusion, the writer points out again that this difference in point of view lies in the conclusions drawn, not in the findings of the committee. In the area above outlined he would not want to be committed irrevocably to all-inclusive legislation if a fair, just, and reasonable line could be drawn—fair to all parties—which would cover

those areas where abuses are likely but which would still leave an area where men might have complete freedom to contract among themselves, and not be deprived of rights which in some areas they have contracted for at the present time.

GORDON ALLOTT.

STATEMENT OF SENATOR NEELY

Due to the pressure of many other duties, I have not been able to take as active a part as I wished to take in the preparation of this report. Therefore I wish to reserve judgment upon the recommendations made by the subcommittee.

MATTHEW M. NEELY.

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PART TWO: SURVEYS AND INVESTIGATIONS

Part Two includes not only particular case studies covered in public hearings of the subcommittee but considerable material resulting from staff surveys, conferences of record, and information obtained through questionnaires and other inquiries. Such staff material is primarily included in sections V, VIII, IX, X, XI, and XII. As it is believed that this information is both educational and beneficial, it was decided to include such staff studies in the report.

V. INDUSTRY PATTERNS IN WELFARE AND PENSION PLANS

The original resolution under which the work of this subcommittee commenced called for a complete study of plans and funds subject to collective bargaining. For this reason it was felt that it would be desirable to concentrate its investigations in certain large industrial areas; Philadelphia, San Francisco, and Chicago were chosen. This approach was successful in bringing much worthwhile material to light. It did not, however, throw much light on the general types of programs which characterize our major industries.

Accordingly, the subcommittee staff conducted surveys in several large industries to determine: (*a*) the extent to which workers are protected by health and welfare and pension plans, (*b*) the basis for administration, (*c*) the basis for financing, and (*d*) the general level of benefits with respect to each of several important industries.

The results of the studies undertaken in the steel, automobile, coal-mining, clothing, electrical, trucking, and residential-construction industries are set forth below.

A. THE STEEL INDUSTRY

1. SCOPE AND METHOD OF SURVEY

Information with respect to this industry was developed through several channels. The United States Bureau of Labor Statistics provided background information as to size, degree of unionization, and the characteristics of the enterprises included. Representatives of management and of the dominant union made available general information as to the types and extent of industry welfare and pension programs. Staff investigators collected details of the specific programs of several of the larger corporations through personal visits; questionnaires as to the insurance phases of the benefit programs were sent to a representative sample of firms.

2. THE INDUSTRY

There are well over 2,000 companies in the industry. They range in size from the giant United States Steel Corp., with some 260,000

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employees, to a number of small firms employing a handful of workers. The industry consists of three major branches: basic steel, fabrication, and iron-ore mining. Some firms have operations in more than one branch.

The overwhelming majority of hourly paid employees in this industry belong to the 1,200,000-member union, the United Steelworkers of America, with headquarters at Pittsburgh, Pa. Basic steel alone employs an estimated 630,000 USA–CIO members. Although many other unions represent workers employed in various segments of the industry, the Steelworkers Union dominates the collective-bargaining picture. As of December 31, 1954, it had 2,315 collective-bargaining agreements in effect.

There is no industrywide bargaining, as such, in the steel industry. Negotiations are conducted instead between each individual company and the union. There is some uniformity in collective-bargaining agreements, particularly those involving basic steel companies, since most of these tend to pattern themselves after contracts negotiated between the major companies and the union. Despite this tendency toward a pattern, however, there are many individual variations.

3. THE UNION

The steelworkers union has some 30 districts, each headed by a district director who is responsible for collective bargaining negotiations between all locals and employers located within his area. Representatives of the international staff assist him. Many of the larger companies have plants located in several districts of the union and, for the first time, in its 1949 negotiations, the steelworkers bargained with such employers on a companywide basis, rather than by individual districts. This was accomplished through negotiating teams of representatives from each pertinent district. This permitted negotiations to be carried on simultaneously with several of the major companies.

Under the steelworkers' constitution, the international union, rather than an individual local, signs each collective bargaining agreement and each agreement must be ratified by the union's wage policy committee before it can become effective. The international maintains an insurance and pension department staffed with specialists who assist field negotiators in bargaining on these matters. This department also reviews each agreement covering insurance or pension matters.

4. HISTORY OF BENEFIT PROGRAMS

Insurance plans in the steel industry are not new; many employers had voluntarily established group insurance programs many years ago. In the World War II period, particularly, a number of employers inaugurated group insurance plans as a means of attracting and keeping employees. While some of these were financed wholly by the companies, the great majority were financed through employer-employee contributions.

In contrast to the fairly long history of steel industry insurance programs, there were few pension plans for hourly-rate workers in steel prior to 1949. A number of companies did have retirement plans covering their salaried personnel.

Prior to the end of World War II, provision for insurance and pension programs had never been included in the collective bargaining agreements. Shortly after that time a number of agreements were negotiated binding employers to retain the group insurance programs which they had unilaterally established. There were no parallel developments as to pension plans. In the case of the major basic steel companies, contractual agreements covering either insurance or pension benefits were not negotiated until 1949, following a major strike in the industry.

After the Presidential (Steel) Fact Finding Board hearings, the Supreme Court decisions in the Inland Steel and W. W. Cross cases, and the 1949 strike, the major steel companies entered into agreements with the union in 1949 to establish both insurance and pension programs covering the hourly-paid employees represented by the steelworkers. Similar contracts were soon put into effect throughout the industry. By December 31, 1954, of the 2,315 collective-bargaining agreements between steel companies and the steelworkers union, 1,929 included insurance provisions covering an estimated 1,062,955 of its members, while 871 contained pension provisions covering about 902,951 members.

5. PENSION PROGRAMS

The pension benefits of most plans in the basic steel industry amount to 1 percent of the average monthly wage in the 120 months preceding retirement, multiplied by the number of years service, less a fixed allowance of $85 for social security benefits. This pension is payable at age 65 to employees with at least 15 years' continuous service. The minimum company-provided pension for those over 65 cannot be less than $2 multiplied by the number of years' service up to a maximum of 30 years less $5. In other words, employees having 30 years' service or more receive a minimum of $55 a month from the employer with this amount being reduced by $2 per month for each year by which service is less than 30 years, down to a minimum of $25 per month for employees having only 15 years of service.

As originally negotiated in 1949, the plan provided a minimum pension of $100 a month including social security for an employee with 25 years of service or more. This could mean, for example, that $35 of the pension came from social security and the remaining $65 from the employer. When the social security benefits were increased, the effect was to progressively reduce the pensions payable by employers. Accordingly, a fixed allowance of $85 for social security benefits was established in subsequent negotiations, and was to remain constant irrespective of any subsequent modification in social security levels.

The typical pension plan also provides benefits for employees under 65 who are retired for disability causes and cannot engage in any gainful occupation. The minimum benefit is $75 a month until age 65 after which time the regular benefit applies.

The main variation from this typical pension benefit for normal retirement is an arrangement common to a number of plans by which the pension is determined solely on the number of years service rather than through the 1 percent formula method.

Some plans provide simply for a flat benefit amount, while in others the benefits are graduated on the basis of years of service without

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reference to earnings. Generally, there are no disability benefit provisions in the smaller company plans, particularly those outside the basic steel industry.

The cost of these pension plans is borne entirely by the employers. Some plans are insured; some use banks as trustees and investment agencies; others are administered through separate corporate trusts established by the employers, and still others are on a pay-as-you-go basis.

Some agreements require the employer to deposit or earmark sufficient funds to meet pension costs of those employees retiring during the term of the contract—terminal funding, so-called. Some require the employer to fund in relation to the actuarial requirements of the program. In others the method of funding and providing pension benefits is left entirely to the employer. There are some pension plans, therefore, which are completely unfunded, with retirement benefits being provided by the employers from their current earnings on a pay-as-you-go basis.

The administration of all pension plans in steel is performed unilaterally by the employers; the union plays no part in this function. In each such plan, however, the agreement provides for a joint employer-employee committee to receive annual reports from the employing company and to review the operation of the program insofar as it affects individuals represented by the union.

At the present, none of the pension plans have any vesting provisions. The employees have no equity in the trust funds until such time as they become eligible for retirement. Even at that time, their actual retirement benefit is contingent upon the terms of the agreement then in effect between the employer and the union.

6. INSURANCE PROGRAMS

There is naturally some variation in employee-insurance plans among the many companies in the steel industry. The following benefits, however, are found in many programs: $3,500 life insurance for active employees, usually continued in force with premium waived to age 65 if employee becomes totally and permanently disabled before reaching age 60; $1,250 life insurance for retired workers; $40 weekly sickness and accident benefits for a maximum of 26 weeks per illness or injury, payable immediately for injury and after 7 days for sickness; hospitalization—usually the equivalent of or full payment for a semiprivate room for both employees and dependents for a maximum of 120 days plus expenses incurred, i. e., use of operating room, X-ray, medicines, etc., plus a 10-day maternity benefit for employees or dependents; medical—reimbursement for surgical operations, usually on a fixed schedule. Some plans also provide additional payments to physicians for hospital services other than actual operations. Some also provide polio coverage.

The hospitalization and surgical benefits of many of the welfare insurance plans in the industry are provided by Blue Cross and Blue Shield through a plan devised by those agencies which applies uniformly throughout the United States to steelworker members covered under negotiated welfare programs.

In most plans, new employees become eligible for insurance benefits after 30 days of employment. In those originally established by

employers and which were incorporated in bargaining agreements, as well as those initially established and/or modified through collective bargaining, all active employees became eligible for immediate participation on the effective date of the program.

In contrast to the noncontributory character of the pension programs, most insurance plans are jointly financed by employer-employee contributions. A few, however, such as those of Continental Can and Aluminum Company of America, are noncontributory.

The major contracts provide for a total contribution of 9 cents per hour for insurance, 4.5 cents from the employee and 4.5 cents from the company. The employee contribution is usually transposed into a fixed monthly amount which averages about 4.5 cents per hour. The monthly contribution of any individual worker may vary in accordance with his wage rate and dependency status. The average runs about $7.50 a month and ranges from $6 to $11, less for single employees and more for those with dependents.

The employer contribution is made on the basis of 4.5 cents for each hour worked by each employee in the bargaining unit covered by the plan. In some instances this payment is also converted to a fixed dollar amount, by agreement, by multiplying 4.5 cents by an estimated number of hours to be worked in the year, such as 1,800, 1,900, 2,000. Thus the company contribution may be fixed at say $85.50 per employee per year, regardless of the number of hours actually worked. In some plans, a fixed monthly company contribution is specified in the contract for each active employee in service during that month. Other plans provide for fixed and uniform monthly contributions by each employee with the employer adding whatever amount of money is necessary to pay for the agreed upon benefits.

By converting the cents-per-hour figures to fixed monthly amounts, fluctuation in contribution income, caused by varying levels of employment in the industry, can be partially offset.

Insurance plans in the steel industry, like pension programs, are administered unilaterally by the employers with the union taking no direct part. Each insurance agreement, however, provides for a joint insurance committee which reviews the operation of the program and receives periodic reports from the employer. Administrative costs of these plans are now borne by the employers although they were originally charged against the joint contributions. Many employers perform functions for the insurance companies, such as processing and paying claims, thus avoiding duplicate administrative functions and reducing the ultimate insurance costs.

Health and welfare benefits are provided through group insurance policies underwritten by numerous commercial carriers and by contracts with Blue Cross, Blue Shield, and similar local-service organizations. In some plans, a commercial carrier underwrites the entire program. By and large, however, the life insurance and sickness and accident benefits are provided through an insurance company while the hosiptalization and surgical coverage is furnished through Blue Cross and Blue Shield or like service organizations. Selection of the insurance carrier is determined through negotiations in most cases although in some instances the employer alone makes the choice. In many cases where a prior plan has been in effect, the former carrier is retained in order to take advantage of reserves which had been built up prior to the time the plan was brought under collective bargaining

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and modified. In a few instances, new carriers were selected on the basis of informed opinion or competitive bidding. The steelworkers follow a "firm policy" of using health agencies such as Blue Cross and Blue Shield to provide service benefits and have thus obtained agreements with many employers to discontinue indemnity coverage through a commercial carrier. During the negotiations of some insurance plans which had already been established through collective bargaining, bids from competing carriers were obtained and compared against charges of the existing insurance company, thus effectively assuring that the parties in interest were receiving the most economical service.

In most insurance programs, the employer is the policyholder. (One exception is United States Steel Corp. whose insurance and pension programs are administered through a separate corporate trust which is the policyholder in this case.) Employee contributions are collected by means of authorized checkoffs and, together with company contributions, are used to pay insurance premiums, usually on a monthly basis. In most instances, particularly in the larger companies, a depository is utilized for this purpose with an employee benefit account or insurance fund being maintained as a separate entity. Most agreements provide that this money cannot be recaptured either by the employees or the company but must be used for insurance purposes. There are exceptions, however, which involve distribution of dividends earned, which in some plans may be returned to the contributing parties. (See below.) Other than this, the only interchange of moneys is between the employers and the insurance companies or service agencies.

The disposition of insurance dividends varies among the many plans. This is governed by the agreement and usually depends on how the plan is financed. In noncontributory plans, dividends are retained by the company. In plans where the employee contribution is uniform and fixed, and where the balance of the cost is provided by the employer, dividends are usually returnable to the employer. Under an arrangement such as this, the employer must bear the cost of the premium increases, if any, due to adverse experience, since the employee contribution is fixed for the duration of the contract. The employer therefore assumes an open-end risk, recognized in the arrangement whereby dividends are returned to him and can be applied to his gross costs. Of course, this arrangement may have the reverse effect. For example, if employee contributions are computed and fixed on the basis of half the cost of the total insurance package, with the employer agreeing to finance the balance, favorable claims experience will generate a dividend which, when applied to his gross costs, reduces his net cost to a point considerably lower than employee contributions.

In some few plans in which both the employee and employer contributions are fixed at a ratio other than 50–50, i. e., 62.5–37.5, dividends are paid to each party in the same ratio as that on which contributions are made.

In the plans involving larger companies, however, particularly those having the 9 cents per hour joint contributory arrangement, dividends are returned to the insurance or employee-benefit account and utilized to further the program in one of various ways.

7. DISCLOSURE OF INFORMATION TO UNION AND EMPLOYEES

With respect to disclosure, it was generally found that periodic reports on the operations of the welfare plans are given to the union through the joint insurance committees, in accordance with terms of the insurance or collective-bargaining agreements. In these, the companies furnish data on employer and employee contributions, insurance premiums paid, and information concerning the claims, dividends, and insurance-company retention.

In the noncontributory pension programs, however, the situation is different. These specify benefits to be provided and in most instances do not specify company contributions nor make reference to costs or funding. The employers report very little information to the joint pension committees. Usually, they disclose the identity of those pensioned together with the amount of pension awarded but do not reveal methods of financing, total value of pension trusts, or the investments of such trusts.

It can be seen that the average steel-industry employee must depend upon the contractual relationship between his employer and his union to receive insurance and pension benefits. The agreements which govern these programs are relatively short-term contracts and the insurance and pension programs legally terminate concurrently with the expiration of each contract. It would be naive to presume that collective-bargaining negotiations would ever cease to be a part of the industry; however, under the present structure of many of these plans, the steelworker employee has little actual assurance, over and above the collective-bargaining agreement, that he will ultimately receive the pension upon which he is counting heavily. The crux of this weakness is found in the funding provisions in many agreements which leave the manner and means of providing the agreed-upon pension benefits to the employer. Many companies have undertaken the costly job of funding their pension obligations, at least to some extent, through pension trusts, corporate trusts, or insured plans of one type or another. Others, feeling they cannot afford to fund, are providing retirement benefits as they accrue, through current earnings, thus accumulating heavy obligations for the future. In the latter cases, employees must depend solely upon the financial solvency and continued profitable operations of the employer, as well as the company-union contractual relationship at the time they retire. After retirement, in the nonfunded plans, the pensioner has no guaranty that he will continue to receive his monthly pension check.

In cases of companies which are funding their pension programs, the employee receives no information as to the methods being used, nor the extent to which funding is being undertaken. Although money is being set aside as he works, in recognition of the fact that he is establishing a claim to a pension, he acquires no equity and has no idea as to how the money is being used. This is true despite the fact that the employer receives tax deductions for his contributions on the basis that they are being placed in trust for pension purposes.

To the extent that welfare and pension funds represent nonwage compensation and are in lieu of money wages, it seems logical that whether a pension plan is negotiated on a benefits basis, or whether the agreement specifies how benefits shall be provided, the employee-beneficiary is entitled to full information concerning the operation of the plan.

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8. INFORMATION OBTAINED FROM INDUSTRY QUESTIONNAIRE

Specific information on various aspects of the administration and financing of health and welfare plans was obtained through questionnaires directed to 26 companies in the steel industry. The establishments included in this study had from 96 to 21,000 wage-earners. It cannot be assumed that a sample so small is representative of this huge industry. The findings, however, are believed to be indicative of the manner in which health and welfare programs in the industry operate.

Some questionnaires were not completely or correctly executed and could not, therefore, be tabulated with absolute accuracy on all points. For that reason, the numbers of establishments referred to below will vary from question to question.

(*I*) *What benefits are offered in these plans?*

All those reporting provided life insurance, sickness and accident benefits, and hospitalization and surgical coverage. Eight also included accidental death and dismemberment, nine provided medical coverage and four others included other benefits such as polio coverage.

(*II*) *Insurance carriers. How is coverage provided?*

Fifteen well-known insurance companies are represented in these programs, some of which insure several different plans. In 6 instances, more than 1 commercial carrier is utilized to insure portions of the same plan; 11 plans are insured entirely through single carriers. In 11 programs the hospitalization and surgical benefits are provided through Blue Cross and Blue Shield with other portions of the plan being covered through one or more commercial insurance companies.

(*III*) *Selection of insurance carrier(s). Did union have a voice?*

Eight companies reported that the union had no voice in selecting the carrier. Eighteen affirmed that the union did have a voice with the carrier(s) being selected jointly either by negotiations or through the joint insurance committees common to plans in this industry involving the steelworkers union. These latter employers also indicated that competitive bidding was a factor in most instances.

One employer stated that Blue Cross and Blue Shield were selected at the union's insistence to provide the hospitalization and surgical benefits which had previously been furnished through a commercial carrier. The same carrier continued thereafter to insure the remainder of this program.

Another employer stated that the union alone had selected the carrier and had also insisted upon naming the broker in this particular instance.

(*IV*) *How are these plans financed?*

All companies reported they have contributory plans in which the total insurance costs are borne jointly, in varying ratios, by company and employee contributions. In one instance, a company had had a noncontributory plan in effect until November 1, 1954, when negotiations resulted in the establishment of a joint contributory program which provided increased benefits.

In 11 of the plans, the employee makes fixed monthly contributions for the term of the contract while the company provides the balance necessary to provide the agreed-upon benefits. This is an open-

end type of arrangement, as one employer put it, in which the employer is liable during the contract period for any increase in insurance costs over and above the fixed employee contributions. The company guarantees the benefits which have been agreed upon. In this type of arrangement, the company contribution is not usually specified in the agreement.[1]

In 10 plans, the employee contribution is fixed in monthly amounts intended to average a specified cents-per-hour figure, usually 4.5 cents, while the employer contributes at the same cents-per-hour rate for each participating employee, the intent being to share the cost on an equal basis. There were 2 plans of this type in which the contribution was based on 2.5 cents for both employee and employer. In one instance, the company contribution was based on a 6.5-cent-an-hour basis which represented about 56 percent of the total insurance costs.

In two instances, company and employee contributions are established in terms of a fixed ratio of total costs—in one case at 70–30 and in the other at 78–22. In the first case the company contributes the 70 percent and in the second case the employee contributes the 78 percent.

In one plan the agreement provides that the total cost of benefits agreed upon will be shared on an equal basis and that the company may fix employee contributions for administrative convenience and insurance purposes which will approximate half the cost.

Methods of fixing employee contributions vary widely among the plans. Nine have a single uniform monthly contribution for all participating employees. Thirteen have uniform contributions for those with dependents and lower uniform contributions for those with no dependents. In four instances, the contribution is fixed according to the employee's individual wage rate and dependency status.

(*V*) *Insurance company retention*

Of the questionnaires which could be analyzed in this respect, retentions of insurance companies ranged from 48.4 percent of premium (in a plan involving less than 150 employees) to 4.7 percent (in one involving almost 1,500 employees) in the latest complete insurance year. Generally, retentions ranged from 5 to 11 percent of premiums.

(*VI*) *Disposition of dividends*

In all these cases the companies themselves are the policyholders. Again allowing for questionable reporting, 11 companies retain all dividends under terms of their insurance agreements with the union. All but one has the open-end financing arrangement previously described. In the one excepted case, both employer and employee contributions are fixed in the agreement, but the employer is paying a major portion of total insurance costs.

In nine of the plans, dividends are returned to the credit of the employee's insurance account, cannot be returned to the companies, and are used in furtherance of the employee benefit program.

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[1] Under most plans negotiated by the steelworkers, the sum of 9 cents per hour per employee is provided for insurance benefits, half to be contributed by the employer and half by the employee. Assuming a workmonth of 165 hours, since insurance premiums are usually paid monthly, this would generate a total insurance package of $14.85 with which agreed-upon benefits could be purchased. In most open-end agreements, the employee contribution is fixed at a monthly amount intended to average approximately half the cost of total benefits, i. e., $7.43, etc., for all participating employees. The balance borne by the employer is also intended to represent about half the cost. There is, of course, wide variance in these arrangements since each plan is separately negotiated.

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(*VII*) *Percentage of total insurance costs borne by employees*

Of those companies which reported sufficient information to make a determination in this regard, it was found that the average percentage of total insurance costs borne by employee contributions in all plans was 51.88 percent.

(*VIII*) *Commissions paid (in latest insurance year)*

Of all companies, only one reported the actual amount of commissions paid to an insurance broker.

Six employers reported there was no broker involved in their insurance programs.

Seven employers reported they did not know what commissions were paid though they listed brokers in each case.

Four companies left the question blank.

Two companies simply stated that commissions were paid by the insurance companies involved.

One employer reported that standard commissions are paid and another stated that commissions amounted to approximately 3 percent.

The remaining companies reported that no commissions were paid even though some of them listed brokers as being involved in their plans.

(*IX*) *Administrative functions performed by companies*

All the companies reported that they perform some administrative functions in connection with their insurance programs such as assisting employees in filing claims, issuing certificates of insurance, et cetera. All of them, of course, perform other functions necessary to the program such as collections and computing contributions. Twenty-one companies reported that they process claims for the insurance carriers.

(*X*) *Does the union play any role in administration?*

Seventeen employers reported that the union has no function in the administration of these programs. The remaining companies reported that the union, usually through the joint committee, played some part in the administration such as assisting in claims investigations, and reviewing the operation of the program. One employer stated the union played a joint part in the administration of his program.

B. THE AUTOMOBILE INDUSTRY

1. SCOPE AND METHOD OF SURVEY

The main sources of information for this report are (*a*) hearings before the subcommittee relative to welfare and pension plans in the industry; (*b*) interviews with the staff of the social-security department of the UAW–CIO; (*c*) interviews with representatives of various companies, including General Motors, Chrysler, and American Motors, and with representatives of the Automotive Tool & Die Manufacturers Association; and (*d*) questionnaire returns from 52 companies in the industry relative to their welfare and insurance programs.

2. THE INDUSTRY

The industry consists of automobile and truck manufacturers and component parts manufacturers. There are about 800 companies with some 2,000 separate establishments. The Bureau of Labor Statistics reports that total employment in the industry in September 1955 was 891,000, of whom 726,000 were production workers. The industry is centered in the State of Michigan, and is highly concentrated. In 1950, the 4 largest companies employed 59 percent of all the workers in the industry and since then concentration has increased.

3. THE UNION

The dominant and for all practical purposes the only labor union in the industry is the United Automobile, Aircraft, and Agricultural Implement Workers of America (UAW–CIO). This union has organized close to 100 percent of the hourly paid workers in the automobile, aircraft, and agricultural implement manufacturing industries, and includes some thousands of workers in various fringe industries.

President Walter Reuther's report to the union's 15th convention (March 1955) conservatively estimated the then total membership of the UAW–CIO as approximately 1,500,000. The report also stated that the average number of dues-paying members for the 23-month period, January 1953 to November 1954, was 1,331,685. Inasmuch as 52 percent of all production workers in the automobile, aircraft, and agricultural implement industries in February 1955 were in the automobile industry, it is probable that about the same proportion of the UAW's total membership is in this industry.

The majority of the automobile workers are employed by the Big Three: General Motors, Ford, and Chrysler; the number of UAW members employed by these firms being given in the above-mentioned report as 325,000, 140,000, and 110,000, respectively. Other firms employing large numbers of UAW members include American Motors, Packard-Studebaker, Willys-Overland, Electric Auto-Lite, and Borg-Warner.

UAW–CIO has its headquarters in Detroit and also maintains an office in Washington, D. C. The union has some 1,500 locals; it is organized into 17 regions, and maintains 40 departments and 35 councils. Some of the departments have been established along functional lines such as the political action, veterans affairs, legal, and social-security department, while the others have been formed to supervise and assist in collective bargaining with the larger companies or groups of companies, such as the General Motors department, the Ford department, the agricultural implement department, the Auto-Lite department, and the foundry department. The union has approximately 800 full-time employees.

The social-security department of the union is a consultative unit and furnishes technical services on pension and group insurance planning and administration, and on hospital, medical, and other health programs. It performs actuarial studies and evaluations, and also advises in regard to governmental and community health and social-security programs. Its staff of 15 to 20 persons includes 3 or 4 specialists on insurance programs and 2 actuaries. The functioning of this department in the welfare and pension fields will be discussed below.

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4. THE COLLECTIVE-BARGAINING PROCESS

Collective bargaining contracts in the automobile industry must be cosigned on the union's side by the international. In the case of small companies, the negotiations are conducted on the union side by the local involved, perhaps with the assistance of international union officers and specialists, with the resulting contract being cosigned for the international union at the regional level. In the case of the large companies, the negotiations are conducted by a union committee under the department of the international which deals with the particular company involved. The committee is composed of the top leaders of the international union, of representatives of that department, the regional offices and the local unions involved, together with specialists from the functional departments of the international union, if their subject matters are involved. To the extent that welfare and pension plan provisions are involved in the negotiations, members of the social-security department are called in for assistance and advice. The Big Three contracts are for 5-year periods, but there are provisions for reopening the contracts by either side.

Generally, the Big Three contracts set the pattern for the entire industry. However, separate collective bargaining is conducted with each company or plant, or with groups of companies in the few cases where the companies have joined together in an employer association, such as the Automotive Tool and Die Manufacturers Association in Detroit. While in general the contracts may follow those negotiated with General Motors, Ford and Chrysler, there are also many variations, due either to the mutual desires of the parties or to the stronger bargaining position of one of them. Thus, in the welfare and pension field, the welfare and pension plans of the Big Three are similar to each other and the majority of welfare and pension plans in the industry follow their pattern; however, among the roughly 260 pension plans and the 2,000 welfare plans there are many which vary from the Big Three pattern.

The social security department of the international union has no direct control over the local unions as regards welfare and pension programs, and there is no requirement that the representatives of the union who are conducting collective bargaining negotiations must consult with the department. In practice, however, they do consult the department to a very considerable extent. In the case of pension plans, the social security department is consulted and allowed to play a strong part in nearly all negotiations ("9 out of 10"). In the case of welfare plans, members of the social security department are consulted and play a part in the negotiations of some of the larger plans, but are not consulted on many of the plans of the smaller bargaining units. In addition to its consultative function the social security department compiles information and statistics relative to all UAW welfare and pension plans.

5. PENSION PROGRAMS

Collectively bargained pension plans for hourly paid workers in the automobile industry were in many instances preceded by retirement programs for salaried employees and in some cases for hourly paid employees. Beginning in 1949, the UAW began to press for the incorporation of pension benefits in its collective bargaining agreements.

In 1950, the union incorporated pension benefits in its contracts with the Big Three. It was decided that these pension plans should be on a fully funded basis; the union conducted a 105-day strike against Chrysler Corp. to make the company agree to fund its pension program.

At the present time, the union has bargained for some 260 pension plans covering over 1,100,000 workers. Statistics and estimates have not been compiled as to the aggregate annual amount of employer contributions required to finance pensions or current assets of pension plans, but it is clear that large sums of money are involved. The largest fund, General Motors, has assets exceeding $350 million, and the fund is currently increasing at the rate of $70 million a year.

About 80 percent of the UAW membership is covered by pension benefits, though less than 20 percent of the plants organized by the UAW have pension plans. Negotiations are resulting in the establishment by smaller concerns, of their own pension plans, and in the establishment of multiemployer plans, the largest being the aforementioned plan of the Automotive Tool and Die Manufacturers Association in Detroit. It involves 82 companies and covers some 8,500 workers. Three plans are financed by employers in diverse industries, namely, a plan in Toledo covering 2,000 workers in 27 plants; a plan in Detroit covering 600 workers in 6 plants; and a plan at Long Island covering an unspecified number of workers in 5 plants.

(A) CHARACTERISTICS OF PRESENT PENSION PLANS

The majority of the pension plans for hourly paid employees are noncontributory; the employer pays all costs.

Almost all of the plans provide benefits without regard to the level of earnings of the employee, the monthly benefit being a specified amount times the number of years of service. Most of the plans provide for voluntary retirement at the normal retirement age of 65 and compulsory retirement at 68.

Virtually all of the plans negotiated by the union provide benefits for employees who become permanently and totally disabled before reaching retirement age. Eligibility for these benefits is conditional upon the employees having reached a specified age or having had a minimum number of years of service, or both.

Until 1955, very few of the plans provided for vesting. In the 1955 negotiations with the Big Three, the union won a measure of vesting in the plans of these companies and is striving for similar provisions in plans of smaller companies.

Most of the plans are "funded" plans. The majority, especially the larger plans, provide that the company pay into a fund the full current cost of benefits earned and, in addition, meet the initial past service liability over a period not exceeding a stated number of years. A somewhat lesser number provide that the company contribute into a fund a certain number of cents per employee-hour worked, this amount having been determined sufficient on the basis of an initial actuarial study to meet the cost of the specified benefits. The employer's obligations toward the program are fulfilled by the contributions made. A small minority of trusteed plans are terminal funded. A few—about 10 percent—of the total number of plans negotiated by the union are of the insured type.

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Since the Big Three companies employ so high a proportion of all workers in the industry, and since their plans tend to set a pattern for the other companies, the pension plans of these companies will be described in more detail.

The plans of these companies provide a monthly pension on retirement at age 65 of $2.25 times years of service. (Hence, an employee with, say, 30 years of service would receive a pension of $67.50 a month, exclusive of social security benefits.) Pensions are payable only to employees who have had at least 10 years of service. Retirement between 60 and 65 is permitted but at actuarially reduced rates. Retirement at age 68 is compulsory.

Monthly benefits are payable for total and permanent disability, providing the employee is at least 50 and has had not less than 15 years of service with the company, in an amount equal to $4.50 times years of service. When the disabled employee reaches 65, and is eligible for old-age benefits under social security, his disability benefits are reduced to the normal retirement payments. The contracts of the Big Three contain a provision that if permanent and total disability should be provided under the Federal systems, the disability benefits payable by the company would be reduced by the amount of the disability benefit which the worker would receive from the Federal Government.

Vesting is provided for an employee who leaves the company's service after age 40 with at least 10 years of service. He becomes eligible for a deferred pension, payable at age 65, equal to $2.25 a month times his years of service after attainment of age 30.

The Big Three contracts provide that the company establish a pension fund and contribute annually to this fund an amount sufficient to fund both the pension rights earned during that year and the past service obligation over a 30-year period. The amount is determined by a qualified actuary. The company furnishes the union each year with a statement certified by the actuary as to the contribution determined to be necessary to meet the actuarial liability.

Each of the companies has entered into an agreement with a bank (in the case of General Motors it is seven banks) to hold and invest the pension fund and to pay pension benefits to persons authorized to receive them.

The employee's record of service is generally kept at the plants. At each plant there is a pension committee of an equal number of company and union representatives which reviews applications and decides whether the employee is eligible, and the amount of his disability or pension benefit. In each company there is also a central board, again composed of equal numbers of company and union representatives, which hears and settles cases which cannot be settled at the plant level.

Apart from its role of authorizing pensions, the union does not participate in the administration. It has no voice in the selection of the bank trustee, the terms of the trust agreement, or the investment of the pension fund. One of its past demands has been for some voice in investments. The Chrysler Corp. furnishes the union with a copy of the annual report of the bank trustee listing the investments of the fund, and the actuary's annual valuation report. General Motors does not give the union the actuary's valuation report but does provide a certification as to the contribution required to meet

the actuarial liability, plus information as to the number of and amounts paid to pensioners and the number and age distribution of employees and past service credits. General Motors does not disclose the investments of the pension fund, but the total book value of the fund is a matter of public record, being set forth in the company's annual report to its stockholders. Ford provides the bipartite board of administration with annual information on the assets of the pension fund together with data as to the age, sex, and service record of employees covered by the plan, the number of pensioners, and amount of retirement benefits. The union is provided directly with an actuary's certification that the company's funding obligations have been met.

6. WELFARE PLANS

With very few exceptions the welfare plans in the automobile industry involve a single employer and his employees. In the Toledo, Ohio area, for example, the union has been instrumental in establishing one multiemployer plan covering a considerable number of small enterprises, which is financed by specified cents per hour contributions into a jointly managed fund. In Detroit, some 75 to 80 small companies making automotive tools and dies have established through their association a plan of group insurance for their employees. A master policy is taken out by the association, with each employer-member paying the cost for his employees.

The great majority of all single employer welfare plans are unilaterally administered and controlled by the employer. Under these plans the employer and union agree upon insurance benefits which will be provided the workers, generally with the employees making specified contributions and the employer bearing the remainder of the cost, or less frequently with the employer paying the whole cost.

This arrangement allows the employer to select the insurance carrier, to pay the insurance premium, and to retain any dividend or experience rating refund paid by the carrier. While plans of this type are in the great majority, there is a significant proportion of plans which deviate from this pattern, and in which the union has a voice in the administration of the plan.

The welfare plans of General Motors, Ford, and Chrysler are similar, and represent the dominant pattern.

The General Motors Corp. plan, for example, is companywide, having been agreed to by each of the 18 unions which represent the employees. The corporation has one plan for its hourly paid employees, and another for its salaried employees. The following account deals only with the plan for hourly paid employees.

The program, in effect, has two parts, one covering hospitalization, surgical and in-hospital medical benefits, and the other covering life and disability insurance. The UAW-CIO has generally preferred Blue Cross to insurance company coverage for hospitalization, and, though less strongly, Blue Shield to insurance coverage for surgical and in-hospital services. Following these preferences, the corporation makes available to its employees at each plant location the local Blue Cross and Blue Shield plan. The company pays half of the cost for the single employee, and half of the cost for dependent coverage, up to a ceiling of what the company pays for the comprehensive contracts of the Michigan Blue Cross and Blue Shield plans.

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The insurance program consists of (*a*) life insurance prior to age 65 in amounts varying from $3,500 to $7,500 depending upon the employee's base hourly rate; (*b*) continued life insurance after 65 in reduced amount, but with no employee contributions; (*c*) accidental death and dismemberment benefits at 50 percent of the life insurance in force; (*d*) in event of total and permanent disability, payment of the face value of the life insurance, less $500 in insurance which remains in force, in 50 monthly installments, and (*e*) weekly sickness and accident benefits of from $35 to $85 weekly, according to pay, for up to 26 weeks.

Employee contributions for these benefits vary from 50 cents to $1.30 weekly, depending on the hourly wage. The company pays the remainder of the cost plus the cost of administration.

General Motors insures with the Metropolitan Life Insurance Co., which has been the carrier since the inception of the program in the twenties.[2] The union has had no voice in the selection or retention of the carrier. General Motors self-administers the insurance for disability, i. e., it processes and pays disability claims; the insurance company processes and pays life and accidental death and dismemberment claims. Procedures exist whereby the union can intercede for employees who have complaints or grievances under the insurance program; otherwise the union has no role in administration of the program.

General Motors, and the same is true of Ford and Chrysler, does not disclose to the union the premium costs, incurred claims, dividends, net retention by the insurance company, or the division of cost of the program between the company and its employees. The union has repeatedly but unsuccessfully sought this information. General Motors' position is that it has agreed to make certain specified benefits available in return for certain employee contributions and that the precise cost to General Motors is its business alone.

(A) ADMINISTRATIVE PATTERNS OF WELFARE PLANS IN THE INDUSTRY

In order to obtain more precise data as to the characteristics and costs of welfare plans in the automobile industry, a questionnaire was sent to 115 companies which had bargaining relations with the UAW–CIO. These companies were selected at random but in such manner that there was appropriate representation of companies of various size. Usable replies were received from 48 companies. In addition, questionnaires were completed by four companies whose welfare plans were selected for special study.

Table 1 indicates the prevalence of the different types of administrative arrangements found among concerns of the various size groups. This table relates to insurance programs only, i. e., exclusive of Blue Cross and Blue Shield since under the latter plans, once the initial selection has been made, questions involving administrative control of the programs do not arise.

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[2] Another carrier is used for the disability insurance for employees in California.

TABLE 1.—*Distribution of automobile companies according to type of administration of insurance program (exclusive of Blue Cross-Blue Shield)*

Size of concern	Number of concerns reporting	Number of concerns with traditional administrative pattern	Number of concerns with nontraditional pattern and description of same	
			Number	Type (see code)
Number of employees:				
10,000 and over	4	3	1	A.
3,000 to 9,999	8	3	5	1B; 1C; 2D; 1E.
1,000 to 2,999	9	8	1	1D.
500 to 999	10	9	1	1C.
100 to 499	13	[1] 12	1	1F.
25 to 99	8	[2] 8	0	
Total	52	43	9	

[1] But on 6 of these union had voice in selection of insurance carrier.
[2] But on 4 of these union had voice in selection of insurance carrier.

CODE

A—Company pays into a jointly managed health and welfare fund a specified amount per month per employee; employees pay balance of cost. Union and management have equal voice in determining insurance program, disposition of fund, and selection of carrier; insurance dividend is credited to fund.

B—Company pays premiums for specified insurance coverage to insurance company selected by union; policy is issued to union and union receives insurance dividend, if any.

C—Company pays specified cents per hour to company controlled fund used only for payment of insurance premiums; employees make specified contributions. Carrier selected by joint negotiation. Fund receives insurance dividend.

D—Company contributes specified cents per hour to jointly managed fund; fund trustees select carrier and fund receives dividend. No employee contribution.

E—Company pays specified amount to union which takes out and administers insurance program and receives dividend.

F—Company pays entire cost for employees; employees pay entire cost for dependents. Insurance dividend is shared between company and union, and union's share goes into union Christmas fund.

Of the 52 concerns from which usable data were received, 43 followed what may be called the traditional pattern of employer control and 9 deviated from the pattern toward union control or participation. The traditional pattern is where the employer controls the program, pays all of the cost, or pays the remainder of the cost over and above fixed contributions of employees, selects the carrier, and receives the insurance dividend or experience rating refund, if any.

The deviations were noted, especially among concerns with 3,000 to 10,000 employees. In such nontraditional plans the usual arrangement is that the employer pays a fixed contribution on a cents-per-hour basis to a jointly managed health and welfare fund, and employees pay on a similar basis; the union and employer have equal voice in determining the insurance program and selection of carrier; and any insurance dividend is credited to the fund.

In another instance the arrangement is similar, only the company controls the fund which is used for payment of insurance premiums; the carrier is selected by joint negotiation, and any insurance dividend is credited to the fund.

Still another arrangement provided that the company pay the premium for a specified insurance coverage to an insurance company selected by the union. The union receives the insurance dividend, or would receive it if there was one. The company's sole responsibility is that of paying a specified premium per employee; beyond that it has nothing to do with the program, and receives no information as to the insurance experience. It is probable that this type of arrangement is illegal under the Labor Management Relations (Taft-Hart-

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ley) Act, 1947, for the union is receiving a "thing of value"—namely, an insurance contract, but there is no jointly managed fund.

In still another arrangement of the same sort, the company makes a specified payment to the union for a specified coverage, and the union then handles the insurance. It holds the policy and receives the dividends, if any. Again there is the possibility that this type of arrangement is illegal under the Taft-Hartley Act.

In addition to the above patently nontraditional arrangements, there were a considerable number of instances among the plans classified as traditional in which the union had a voice in the selection of the insurance carrier, and in some cases selected the carrier. Among the smaller concerns of less than 500 employees, the union participated in or dominated the selection of the carrier in about half of the cases.

Perhaps two conclusions may be drawn from this showing: First, in this industry, with a powerful, aggressive union which is demanding a voice in the control of welfare and pension programs, there has developed a considerable number of instances in which the union shares, in some significant way, in the administration of the insurance program, and second, there are a considerable number of other instances where the insurance program on the surface is unilaterally administered by the employer, but where the union has considerable share in control.

(B) DIVISION OF THE COST OF WELFARE PLANS

Information on the division of the cost of welfare programs between employers and employees was obtained in the questionnaire survey and the findings are set forth in the table below. For the four largest concerns in the sample—including General Motors, Ford, and Chrysler—of the total net cost of the welfare program, including Blue Cross and Blue Shield, and inclusive of dependent coverage, approximately 50 to 53 percent was paid by the employees and the remainder by the companies. For the remaining groups the percent of the net costs borne by employees was markedly less—ranging from 15.6 to 31.3 percent. Among the smaller concerns, especially, there was a goodly number in which the employer paid the whole cost of the program.

Percent of total net cost of welfare program (including dependent coverage) borne by employees

Size of company	Number of companies providing usable information on this point	Percent of total net cost borne by employees
Number of employees:		
10,000 and over	4	50–53
3,000 to 9,999	7	22.5
1,000 to 2,999	8	17.1
500 to 999	8	23.8
100 to 499	11	31.3
25 to 99	6	15.6

(C) ADMINISTRATIVE COSTS, INCLUDING INSURANCE COMPANY RETENTION

Complete data on costs of administration are not available. The costs of administration are the costs to the employing company of making the insurance available and of self-administering such benefits as are provided.

The employer assumes some costs in making an insurance program available to his employees, in deducting employee contributions from pay, and in remitting payments to the carrier, etc. Few companies ever bother to isolate and determine these costs. They are believed to be relatively small, probably ranging from 1 to 3 percent of the total payments involved, depending on the size of the risk.

Many large employers administer benefits under their insurance programs. They receive claims, determine applicant eligibility, and pay claims through drafts written on the insurance company. Insurance companies generally calculate that the cost of administering claims on large cases amounts to 1 to 2 percent of premiums, and when an employer takes over these functions they are willing to reduce premiums by this amount.

The major expense item of an insurance program is the percentage of premium retained by the insurance company over and above the claims and any dividend or rating refund paid to the policyholders, which in the main are a function of the size of the risk. Returns to the subcommittee's questionnaires reveal a wide range in these charges, as follows:

Average insurance retention (excess of billed premiums over the sum of claims and dividends or rating refunds, as a percent of premium)

Size of company	Number of companies providing usable information on this point	Average retention percent
Number of employees:		
10,000 and over	4	[1] 8.8
3,000 to 9,999	6	[2] 2.5
1,000 to 2,999	8	8.8
500 to 999	8	19.5
100 to 499	12	19.7
25 to 99	6	[3] −3.0

[1] Figure not representative because of different methods of underwriting and handling reserves.
[2] Figure not representative because of sizable minus retention in case of 1 company.
[3] Figure not representative due to small sample.

Probably the majority of auto workers who have Blue Cross-Blue Shield coverage are included under the Michigan programs. In 1954, Michigan Blue Cross had an administrative expense ratio (all administrative costs as a percent of subscription income) of 4.8 percent. The analogous ratio for Michigan Blue Shield was 8 percent. In this year Michigan Blue Cross had no net income, but instead incurred a deficit of 5 percent of premiums; the Blue Shield plan had a net income of 2 percent. (In other words, the net insurance retention by Blue Cross-Blue Shield, or on a basis comparable to that shown for the insurance companies, was minus 0.2 for Blue Cross and 10 percent for Blue Shield.)

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7. SUPPLEMENTARY UNEMPLOYMENT BENEFIT PLANS

In its drive to obtain the so-called guaranteed annual wage for its members, the UAW-CIO succeeded during 1955 in negotiating plans for supplemental unemployment benefits with many of the larger companies with which it has bargaining relations. By the end of 1955 over 1,100,000 of its members were covered by agreements making provisions for these benefits when and if the necessary State legislation becomes effective.

The supplemental unemployment benefit plans made with the Big Three are very much alike, also the plans negotiated with other larger companies. The Big Three pattern is as follows:

The plans would cover all hourly rated employees having at least 1 year's seniority with the company.

They would give the eligible laid off employees cash benefits ranging up to $25 a week for a maximum of 26 weeks.

The benefits paid would supplement the unemployment compensation benefits paid under the various State programs. Within the $25 maximum the supplementary private benefits when combined with his State's unemployment compensation benefits would give the employee an amount equal to 65 percent of his takehome wage, i. e., his weekly wages after taxes, for the first 4 weeks in which he was entitled to benefits, and thereafter 60 percent of his weekly take-home wages.

To provide these benefits each company will establish a trust fund or 2 separate trust funds, 1 trust fund being for regular employees and the other being for employees engaged on defense work.

The companies will contribute to the funds on the same basis, i. e., 5 cents per employee hour for employees on the defense and nondefense types of work.

The companies will contribute to each fund until a specified maximum total, known as a maximum funding position is reached. This total will vary with increases or decreases in the number of people employed by the company. Ford's fund must reach approximately $55 million on the basis of the company's present number of employees before the company is exempt from further payments. GM's quota is around $150 million. When the funds reach these amounts company contributions cease. Whenever they drop down to less than these amounts, the company payments resume.

The actual amount workers would draw in such supplementary benefits would depend upon the level of unemployment compensation benefits in the State in which they work, and also upon their number of dependents.

In Michigan, where unemployment benefits are high, a single man ordinarily making $84 a week would be able to draw $30 a week from State funds a week after he is laid off. Under the Ford plan, he would draw an extra $15.05 in benefits from the fund for 4 weeks and $11.59 for the next 22 weeks. Another worker, also earning $84 a week, but with a wife and four children will get $43 from the State but only $9.53 and $5.29 a week from the supplementary fund.

In States where the unemployment benefits paid by the unemployment compensation program are lower, the workers will draw relatively larger amounts in supplemental benefits from the fund.

This disparity in benefits for workers in different States is defended on the grounds that one motive of the whole program is to push up the level of State unemployment compensation. Originally the State unemployment compensation programs were set up so as to provide most workers with benefits equal to 50 percent of wages. In virtually all cases, however, maximums have been set to these benefits. These maximums have not been increased with increases in the general level of wages. The result is that in many States the great majority of workers, if laid off, would receive in unemployment benefits far less than 50 percent of their normal wages.

The amount of the weekly supplementary benefits will not normally be affected by the trust fund position. However, should the trust-fund position fall below 13 percent of the maximum funding position there would be a 20 percent reduction in the benefits. Should the trust fund position go below 4 percent no benefits would be paid until the fund had regained that point.

The duration of benefits for each individual will vary in proportion to the relative amount of assets in the trust funds and in the number of credit units held by the employee, these credit units being related to past months of employment.

All of the plans provide that before the plan can become effective, rulings must be obtained in States in which the company has two-thirds of its employees that simultaneous payment of supplementary benefits will not reduce or eliminate State unemployment benefits.

C. THE COAL MINING INDUSTRY

This industry has two parts, bituminous and anthracite mining. A very high proportion of bituminous coal miners and all anthracite coal miners are members of the United Mine Workers of America. In each segment of the industry, the union and the coal operators have established a jointly managed welfare and retirement fund to which all employers signatory to agreements with the union contribute. To all intents and purposes the programs of these funds constitute the totality of welfare and pension plans in the industry, since few employers have any supplementary insurance or pension plans for their own employees.

1. BITUMINOUS MINING

The United Mine Workers Welfare and Retirement Fund for the bituminous coal industry was made the subject of a special and intensive study by the subcommittee staff. A report on the operation of this program will be found in section VI, C of part II, of this report. In brief, this fund provides the following benefits.

(*a*) Pensions of $100 a month for retired miners;

(*b*) Funeral expenses of $350 and widows' and survivors' benefits of $650 ($1,000 in toto) for survivors of deceased miners:

(*c*) Mine disaster benefits paid to dependents of miners killed or injured in mine disasters, intended to bridge the income gap until compensation or other benefits are paid;

(*d*) Hospital and medical care benefits which provide for comprehensive in-hospital care, services of specialists on an outpatient basis, and drugs and supplies for nonhospitalized patients where the prognosis is for an extended period of use. These serv-

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ices are available to all working unemployed, or retired miners and their dependents.

The benefits listed above are financed by employer contributions of 40 cents on each ton produced, and are provided on a self-insured, self-administered basis.

2. ANTHRACITE MINING

The operation of the health and welfare fund for the anthracite coal industry is described below. No investigation was made of this fund; the following brief report is based on correspondence with the fund and the annual audited reports of the fund for the years 1950–54, inclusive.

The anthracite health and welfare fund was established in June 1946 through a joint agreement between the anthracite operators and the United Mine Workers of America, districts 1, 7, and 9. It provided for establishment of the fund and for payment by each signatory operator of 5 cents on each ton of anthracite produced for use or for sale. Subsequent agreements increased the royalty: In 1947, to 10 cents per ton; in 1948 to 20 cents; in 1950 to 30 cents; and in 1952 to 50 cents per ton.

The agreement provides that the fund is to be managed by a board of trustees of three persons, one appointed by the UMW, the second by the coal operators, and the third to be jointly named. It also states that the fund may provide pension, disability, medical, and other benefits, but the precise benefit program of the fund is determined by the trustees.

At present, the fund pays pensions of $50 per month to employees who have been working in employment classified under the joint wage agreement between the anthracite operators and the United Mine Workers of America, who have attained the age of 60 years, and who have worked for at least 20 years in the anthracite coal industry. Death-benefit payments of $500 are made to survivors of deceased members of the UMW, districts 1, 7, and 9, who are suffering a dependent wage loss as a result.

Prior to January 1, 1954, the pension payments were $100 a month and the death-benefit payments were $1,000. The trustees found it necessary to reduce these benefits because of insufficient money in the fund resulting from the decrease in the amount of anthracite coal mined.

The trustees of the fund also initiated a program at Jefferson Medical College Hospital at Philadelphia, Pa., for research relative to silicosis and the treatment and hospitalization of miners who are afflicted with silicosis, which has a relatively high incidence among anthracite coal miners. Applicants for treatment are first sent to Barton Memorial Hospital, Philadelphia, which is operated by Jefferson Medical College Hospital, and if followup treatments are necessary, they are later referred to Whitehaven, which is also owned and operated by Jefferson Medical College Hospital.

The fund also provides medical and rehabilitation benefits for those hardship cases eligible under the joint anthracite wage agreements who cannot otherwise obtain help. The amounts expended for these purposes in each of the last 5 years have been relatively minor

(A) FINANCES OF THE PROGRAM

The financial experience of the fund over the past 5 years is set forth in table 2. Total receipts in the past 5 years have amounted to $55,843,389. For death benefits, over the same period, the fund has expended $4,224,153 or 7.5 percent of receipts; for medical and rehabilitation benefits, $68,392 (0.1 percent); for pension benefits, $55,313,000 or 99.1 percent of total receipts; for silicosis research and treatment, $698,238 or 1.3 percent of fund receipts; for administrative expenses, including purchase of furniture and equipment, $496,686 or 0.9 percent of fund income.

Total expenditures over the 5 years amounted to $60,800,499 or 108.9 percent of the income over that period, or $4,957,110 more than was paid into the fund.

The fund started the year 1950 with an unexpended balance on hand of $1,279,389. In each of the 4 years, 1950 through 1953, fund expenditures exceeded income and the fund only managed to provide the benefits paid by obtaining from the United Mine Workers loans which, at the end of 1953, amounted to $4,408,334. It became apparent that drastic steps had to be taken to reduce benefit expenditures to a level that the fund could afford. Accordingly, as has been indicated earlier, in January 1954, the pension benefits were cut from $100 to $50 a month, and the death benefits also halved. As a result of this step, the fund showed an excess of income over expenditures for 1954 of $535,258.

At the end of 1954, the fund had a deficit of $3,677,721. It had cash on hand of $730,612 and owed loans in the amount of $4,408,334.

It is apparent that this fund has been operated very economically. Administrative expenses over the past 5 years have amounted to less than 1 percent.

It is also apparent that the fund has in the past miscalculated what its receipts and benefit expenditures would be. The source of the fund's difficulties has been the sharp decline in the production of anthracite coal.[3] This decline has been such as to substantially negate increases in royalty payments which the union has obtained since 1948. The decline in production has probably also induced many miners to retire and apply for pension benefits more than would have retired if employment opportunities in the anthracite coal mines had remained stable.

The subcommittee has received a considerable number of letters from former anthracite miners complaining because their pensions have been cut in half. It seems apparent that the fund was forced to this alternative.

[3] Production of Pennsylvania anthracite since 1947 has been as follows: 1947, 57,190,000 tons; 1948, 57,140,000 tons; 1949, 42,702,000 tons; 1950, 44,077,000 tons; 1951, 42,670,000 tons; 1952, 40,583,000 tons; 1953, 30,949,000 tons; 1954, 27,118,000 tons.

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TABLE 2.—*Finances of Anthracite Health and Welfare Fund, 1950–54, inclusive*

Year ending Dec. 31	Total receipts	Death benefits	Medical and rehabilitation benefits	Pensions	Silicosis research and treatment	Administrative expenses	Total expenditures	Excess of receipts over expenditures	Net balance of fund at end of year
1949									$1,279,389
1950	$10,332,480	$1,415,315	$8,802	$9,594,800	$175,000	$82,528	$11,276,445	−$943,965	335,424
1951	10,667,486	594,848	11,933	10,347,300	85,738	93,387	11,133,236	465,750	−130,326
1952	11,828,069	702,368	16,629	12,706,600	200,000	96,786	13,722,383	−1,894,314	−2,024,640
1953	13,005,802	483,322	19,111	14,472,000	115,000	104,708	15,194,141	−2,188,339	−4,212,979
1954	10,009,552	1,028,300	11,917	8,192,300	122,500	119,277	9,474,294	+535,258	−3,677,721
Total, 5 years	55,843,389	4,224,153	68,392	55,313,000	698,238	496,686	60,800,499	−4,957,110	−3,677,721
Expenditures as percent of receipts		7.5	0.1	99.1	1.3	0.9	108.9		

D. THE CLOTHING INDUSTRY

1. THE LADIES' GARMENT INDUSTRY

Subcommittee staff members received much of the information on which this section of the report is based from representatives of the International Ladies' Garment Workers Union, officials of subsidiary bodies, and executive officers of several of the funds established under the union's auspices. Officials of two of the main industry associations in the field, United Popular Dress Manufacturers' Association and Merchants' Ladies Garment Manufacturing Association, provided valuable data on the development and present operation of the programs. The Bureau of Labor Statistics made available information on employment and the characteristics of the establishments embraced within the industry.

(A) THE INDUSTRY

As used in this report, the term "ladies' garments" is deemed to include the following items: Women's, misses', and juniors' outerwear, women's and children's underwear, corsets and brassieres, children's and infants' wear, knit outerwear and underwear, women's service apparel, sportswear, robes, rainclothing, and scarves and neckwear. Employment in the three largest branches is as follows: Outerwear, 365,000; underwear, 117,000; and children's wear, 72,000. An estimated 60 to 75,000 additional workers are employed in the remaining branches; total employment in the industry thus approximates 600,000.

Much of the industry is centered in the New York area, but there are important concentrations in Philadelphia, Boston, Chicago, St. Louis, Kansas City, Los Angeles, and San Francisco.

The garment industry in the very important New York area operates under a unique system of production. There are three types of manufacturers—the inside manufacturer, the jobber, and the contractor.

The inside manufacturer makes a capital investment in the business, operates a showroom, a cutting room, a sample room, and factory of his own. He designs, employs a designer, a sketchmaker, and a patternmaker. He buys goods and selects models to be made. He employs live models to show his goods and sells directly to his wholesale customers.

The jobber performs all of the functions of the inside manufacturer except that the garments are not assembled on his own premises but are processed by contractors.

The contractor invests little capital, does no buying, selling, designing, and maintains no sample room. His establishment serves the single purpose of assembling the bundles of cut cloth sent to him by a jobber into finished garments.

The industry is characterized by pronounced seasonal fluctuations in demand and production and by small-scale operation. Jobbers and contractors are responsible for the bulk of the goods produced; about 80 percent of New York employees are in contract shops.

In the 1920's, the contractors had few resources and competition among them for business was keen. Wages fell to the starvation level; manufacturers and jobbers disclaimed responsibility.

In 1924, the union demanded that the jobber assume responsibility for the conditions and wages of the contractors' workers. The jobbers resisted, and a long strike resulted. Governor Smith appointed the

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George Gordon Battle Commission which studied the problem for 2 years and recommended that the jobber must assume the responsibility for the workers employed by his contractor. This principle was not accepted until a code was established for the garment industry under the National Recovery Administration in 1933. When health, vacation, and welfare and pension funds were established, the jobber was required to contribute in the same manner as the inside manufacturer.

(B) COLLECTIVE BARGAINING

The manufacturers, jobbers, and contractors are organized into various associations for the purpose of bargaining with the union and in some cases with each other. There are more than a hundred of these employer associations. The New York Cloak Joint Board negotiates contracts for the 10 locals of which it is composed and it operates a health and welfare fund and a retirement fund serving all of these locals. The same is true of the New York Dress Joint Board which is composed of four locals. Most of the other local unions negotiate their own contracts and operate their own welfare and pension funds except for those which are members of joint boards in other large garment centers across the country.

Under the New York arbitration laws, an impartial chairman is appointed to conduct hearings and adjudge controversies which arise in the garment industry in New York. The impartial chairman, whose decisions may be confirmed by application to the State courts, has the power to award monetary damages for breach of contract and to release a jobber from his obligation to maintain his contractor on good cause shown. This salary and expenses are paid by the various associations and the union. He acts as impartial chairman in all controversies arising in the garment industry including the health and welfare funds. This approach is paralleled in other garment manufacturing centers, and the industry has been free from major industrial strife for a long period.

(C) DEVELOPMENT OF WELFARE AND PENSION PROGRAMS

In 1938, Local 91 of the International Ladies Garment Workers Union, an organization of children's dressmakers, made the revolutionary proposal that the employers contribute a percentage of their payroll into a pooled fund from which vacation pay was to be given to union members. This plan was accepted and eliminated the loss of vacation money because of change in jobs or failure to pay when an employer was forced out of business. In 1942, the dress joint board in Philadelphia signed a contract providing for a single pooled fund from which not only vacation but also sick, hospitalization, and other welfare benefits were to be paid to all workers. Soon the demand for health and welfare funds became an established item in most of the collective bargaining negotiations of the locals. In 1944, the New York Cloak Joint Board negotiated retirement benefits and the other joint boards and locals followed suit until today, there are within the ILGWU 89 health and welfare funds covering 365,000 members with a combined total of net resources amounting to over $147 million.

(D) HEALTH AND WELFARE FUNDS

The health and welfare funds of the various locals and joint boards are jointly administered by boards of trustees representing management and labor equally and with an impartial chairman to break any deadlocks in the voting. The amount of employer contributions varies in all of the different contracts, from 3.5 to 5 percent of payroll for health and welfare and vacations [4] and from 1.5 to 4 percent for retirement. Benefits are paid directly from the funds without resort to insurance and include (*a*) vacations benefits, (*b*) medical, surgical, and hospital care, (*c*) life insurance, (*d*) disability insurance, (*e*) maternity benefits, and (*f*) eye-conservation benefits. In the 1955 contract negotiated by the Dress Joint Board of New York, the employers agreed to pay 5 percent to health and welfare instead of 4 percent, and to relieve the trustees of the disability program by buying disability insurance for the employees (on a noncontributory basis) from insurance companies. They also agreed to pay 3 percent into the retirement fund which will be increased to 3.5 percent on February 1, 1956. The 5-percent contribution will be used to pay vacation benefits and to install a new comprehensive medical and hospital program. Claims against the health and welfare fund are administered by the local union. Claim forms are filled out by the claimant and his attending physician. The claimant is then examined by a doctor employed by the fund, to confirm the judgment of the attending physician as to probable duration of the disability. Payments begin on the eighth day of the disability.

(E) RETIREMENT FUNDS

Most of the retirement funds provide for benefits when an applicant has reached the age of 65 and has been employed for 20 of the last 25 years in the industry by shops having contractual relations with the union, the last 10 years of which must have been continuous. Because of the seasonal nature of the industry, provision is usually made for periods of layoff. For example, in the retirement fund of the Dress Joint Board of New York, the applicant must have worked continuously for a contributing employer since April 1, 1947, except for layoff, illness, and the like. In computing the balance of the required 20 years, the worker is given credit for each year of employment by a covered employer [5] between January 1, 1933, and April 1, 1947, and 1 year for every 5 years of employment by a covered employer prior to January 1, 1933. Another manner of providing for the seasonal nature of the work is found in the retirement fund of the coat and suit industry in New York which provides that in the case of an applicant over 65 years of age a total of 3 years of the required period of continuous employment may be excused where there is proof to the reasonable satisfaction of the pension committee that, although attached to the coat and suit industry, he was unable to obtain employment although available therefor, or that he was unable to work because of illness.

[4] In some areas, vacation payments are made directly by the employers, and payments to the funds are at a lower rate.
[5] The covered employer is an employer having a contract with the union.

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There is a reciprocity provision whereby the various industry funds within the union will pay a pro rata share of the benefit according to the time worked in each industry by the claimant.[6]

The monthly benefit in most cases is $50 per month but the New York coat and suit industry fund recently raised its benefits to $65 per month. There is also a provision for early retirement of persons between the ages of 60 and 65 who are totally and permanently disabled and have met the other requirements stated above.

The number of applicants who may be approved for retirement is not subject to limitation in the New York dress industry fund where all applicants found to be eligible must be approved and granted retirement benefits. The New York coat and suit industry fund limits the number of approved applicants for retirement to the number which can be assured payment of the benefit for the rest of their lives. In the latter case the list of persons approved for retirement gives precedence on the basis of age—the oldest are retired first. To date, all eligible persons who have applied for retirement are receiving benefits.

In connection with proof of the required number of years of employment by a covered employer (but not necessarily a contributing employer), membership in good standing in any branch of the local is accepted as prima facie evidence thereof. The applicant is also required to have the Social Security Administration furnish the retirement board with a record of employment. A third record is sought from the employers in question.

Application for retirement is passed upon by a pension committee of the board of trustees and can be appealed to the appeals committee of that board whose decisions are final. The board of trustees, often called the retirement board or the retirement council, is usually composed of a number of members from the employers' associations and a number of members from the unions, each side of the table having an equal aggregate vote. One vote is given to a public member selected by the parties for the purpose of breaking deadlocks. In the New York coat and suit fund the pension committee is appointed by the chairman of the retirement board and is composed of all the joint board representatives and three of the association representatives on the board. Three members of the committee present at any meeting constitute a quorum. The appeal committee is composed of the international representative, a representative of the associations, who is not a member of the pension committee, and the chairman of the retirement board.

(F) INTERNAL CONTROLS

Each fund employs a staff of auditors who regularly examine the books of the employers to determine whether on not proper contributions have been made to the funds. Discrepancies are very often found and adjustments made. If the employer refuses to make up any deficiency, the matter is taken before the impartial chairman. If the award of the chairman is not paid, the union will apply to the State courts to confirm the decision of the impartial chairman and proceed to attach the property of the employer.

Each fund submits a complete financial report to the international each month. The international's director of health and welfare funds

[6] More recently, reciprocity has been extended to encompass reciprocal arrangements between different regions.

is often called upon to enter into the negotiations of the locals and joint boards. The international publishes an annual financial report on all of the health and welfare funds and the retirement funds. Copies of this report are distributed to the locals, the trustees, the employer associations and other interested parties.

(G) ADMINISTRATION COSTS

All of the funds are controlled by joint boards of trustees who employ staffs to administer them. Some of these staffs operate out of offices controlled by the locals or joint boards concerned, and others operate out of offices controlled by either the employees or the trustees themselves. The international has established a policy of allowing about 5 percent of income for administrative expenses of health and welfare funds operated out of union offices and about 3 percent for administrative expenses of retirement funds operated out of union offices. Administration costs vary from about 3 to 12 percent of income among the various funds. The variation is contingent in some degree on the size of the operation and its period of existence. The overall average for 1954 was 5.8 percent for health and welfare funds and 3.9 percent for retirement funds.

(H) INVESTMENTS

Although the bylaws of most funds permit investment of funds in those securities permitted by the New York laws regulating investment of trust funds the funds follow the general policy of the ILGWU by investing only in United States Government bonds. Recently funds have been permitted to invest up to 10 percent of their capital in real-estate mortgages acceptable to New York savings banks and in Federal savings and loan associations. This permits some investment in the new ILGWU housing program.

(I) HEALTH CENTERS

Sixteen health centers are maintained across the country by the international and the employer-employee trustees where onsite medical care is dispensed. Most of the centers maintain complete laboratory and X-ray facilities, and a high level of diagnostic and therapeutic services are offered.

2. THE MEN'S CLOTHING INDUSTRY

The subcommittee study of this industry included conferences with representatives of the Amalgamated Clothing Workers of America, CIO, the Amalgamated Life Insurance Co., Inc., the Clothing Manufacturers' Association of the United States, and the United States Bureau of Labor Statistics. The study embraced industry segments representing about 90 percent of the total industry. Limitations of time did not permit inquiry into details of the pension and welfare programs of the United Garment Workers of America, AFL, which represents the remaining 10 percent of the industry's workers.

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(A) THE INDUSTRY

The 7 branches of the industry, which consists of hundreds of relatively small plants in 41 States, are: Men's and boys' clothing, cotton garment, men's neckwear, washable clothing, retail clerks and bushelmen, cleaners and dyers, and specialized laundry workers.

Much of the industry is centered in New York and Chicago with important concentrations in Philadelphia, Los Angeles, Cleveland, and Rochester.

The industry is almost entirely unionized and enjoys unusual freedom from labor unrest. Industrywide the workers are 80 percent women; male workers are craftsmen with long employment tenure.

This industry enjoys the keenest interest and cooperation of management and labor in the operation and administration of its welfare and pension programs, which provide an exemplary illustration of both management and labor trustees assuming their full fiduciary responsibilities.

(B) COLLECTIVE BARGAINING

The Amalgamated Clothing Workers of America is an international union with locals in 41 States and Canada and approximately 400,000 members. Most of the membership is concentrated in New York, Rochester, Philadelphia, Cleveland, Chicago, and Los Angeles. In the larger areas the various locals representing workers in the diverse branches of the industry are amalgamated into joint boards. This organizational structure promotes efficiency of administration and lends itself to effective collective bargaining.

Agreements are negotiated largely between the joint boards of the union and the local bodies of the national associations of clothing manufacturers representing the seven branches of the industry. In accordance with the bylaws of both the national and local management associations, bargaining agreements are binding upon all manufacturer members. These organizations cover 99 percent of the men's clothing industry, thus resulting in fairly uniform benefits in welfare and retirement programs throughout the industry. A new 5-year contract was recently concluded. Reopening clauses and continuing actuarial studies make reappraisal possible whenever necessary.

(C) DEVELOPMENT OF WELFARE AND PENSION PROGRAMS

The first employee benefit fund in this industry was established in Chicago in 1923 to provide unemployment insurance through contributions of 2 percent of wages by employer and 1.5 percent by employee. This fund eventually was extended to the Rochester and New York areas but was abolished there in 1939 after the enactment of Government unemployment insurance. In Chicago, however, with half a million dollars in the fund and about 14,000 employees covered, Hart Schaffner & Marx Co. and the union took the lead in converting the fund so as to provide weekly disability and death benefits. This fund is now known as the Amalgamated Social Benefits Association which provides life and health insurance for Amalgamated workers in the Chicago area regardless of the kind of industry in which they are employed.

In 1942 the Amalgamated Clothing Workers negotiated with the clothing manufacturers a health and welfare fund to be financed by a

2 percent of payroll contribution by the employer. Initially the Amalgamated insurance fund paid accident and sickness weekly benefits of $8 for women and $12 for men and a death benefit of $500; in May 1945 the benefits were substantially increased.

The fund's retirement section was inaugurated in December 1945 following negotiations for a retirement fund based on an employer contribution of 3 percent of payroll. In 1952 the employers agreed to add 1 percent of payroll to the health and welfare contribution to provide certain benefits for dependents. The contributions are now at the rate of 3 percent for health and welfare and 3 percent for retirement. At the present time, 96 percent of all members are covered by both insurance and retirement plans.

The Amalgamated insurance fund covers workers in the men's and boys' clothing industry everywhere in the United States except Chicago; it does, however, cover Chicago workers for retirement only. It provides health and life insurance for employees of clothing manufacturers and contractors and for retail bushelmen in stores located in areas which also have manufacturing. Life and health insurance coverage is also provided for journeymen tailors in custom tailoring houses in the larger markets, employees of certain sportswear and outerwear firms, and retail bushelmen from stores in nonmanufacturing areas.

(*1*) *The Amalgamated Life Insurance Co., Inc.*

When the Amalgamated insurance fund was founded in July 1942, its board of trustees was composed equally of management and employee representatives. Insurance companies were asked to bid, but no proposal was considered satisfactory. It was therefore decided to organize an insurance company, whereupon the employer trustees withdrew on the advice of counsel because of the possibility that the employers might incur some financial responsibility which they were unwilling to assume. The board of trustees was reorganized and thereafter comprised 11 union representatives. A top-level advisory committee was set up of 11 employer representatives to operate within the fund with the power to veto any decision of the board of trustees concerning any of three matters: (*a*) the purchase or change in plan of insurance or benefits; (*b*) investment of funds in anything other than United States Government securities; (*c*) any unusual expenses. Under this arrangement the employers considered that they had limited control without the full responsibility of trusteeship. On the other hand, the union was so confident of the success of the insurance company that it passed a resolution agreeing to buy the stock of the insurance company at face value at any time that the trustees and the advisory committee decided to dispose of it.

The Amalgamated Life Insurance Co. was then organized in 1943 and licensed to do business in New York in 1944. There was no requirement that the directors of the company represent both management and labor but the board of directors was set up with 12 directors representing employers, 12 representing the union, and 1 impartial arbiter-director.

All of the stock of the insurance company is owned by the board of trustees of the Amalgamated Insurance Fund. The company is limited by its charter to writing insurance for affiliated funds, and is a nonprofit organization. A system of retrospective policy rating was set up under which each fund is credited with the premium paid plus

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a pro rata share of investment earnings and is charged with the usual reserves required by the New York Insurance Department and a pro rata share of expenses. Any balance remaining after the application of this formula and the payment of claims is returned to the fund in the form of an adjustment of the rate, which has been loaded 22 percent for expenses and contingencies. Reserves will in time be equal to 70 percent of a year's claims.

The company is exempt from Federal taxes as an employee association but, as required, pays a tax on premiums to the State of New York in the amount of 2 percent for health insurance and 1.75 percent for life insurance.

The directors, officers and counsel of the insurance company serve without compensation. The only salaries paid are those of the executive director and the other full-time employees.

By January 1947 the company had issued policies to the Amalgamated Cotton Garment and Allied Industries Insurance Fund (covering workers throughout the United States, except Chicago), the Amalgamated Neckwear Workers Insurance Fund, the Amalgamated Laundry Workers Insurance Fund, the Amalgamated Washable Clothing, Sportswear and Allied Industries Insurance Fund, the Amalgamated Retail Insurance Fund, and the Amalgamated Cleaners and Dyers Insurance Fund. The Amalgamated Social Benefits Association (Chicago) is insured by the Amalgamated Life and Health Insurance Co., of Illinois, which is owned by that fund and which issues health and disability insurance only to the parent fund.

All of the Amalgamated welfare and pension programs feature centralized control which permits complete reciprocity among the various divisional funds.

The Amalgamated Life Insurance Co. does not write insurance in Arizona, the District of Columbia, Florida, Maine, Michigan, Nebraska, North Carolina, Rhode Island, South Carolina, Washington, and Wisconsin either because the groups are too small or because State laws and regulations will not permit the company to operate there. In these States insurance is provided by the Equitable Life Assurance Society and covers a total of 11,500 members. Amalgamated is now negotiating with Maine, South Carolina, and Rhode Island to obtain licenses for doing business in those States.

(D) HEALTH AND WELFARE FUNDS

The two national funds, men's clothing and cotton garment, have similar health insurance plans. They provide for $500 life insurance, disability benefits of $20 weekly with a maximum of 13 weeks for sickness or accident, hospitalization of $9 daily for a maximum of 31 days plus $50 for other charges, and a maximum of $200 for operations and of $100 for maternity cases. Hospital and surgical benefits also cover employees' children from 2 weeks of age through 18 years and spouses unemployed for the previous 6 months, or for 9 months in maternity cases. The Chicago fund pays the same benefits except that the life insurance is $1,000. The remaining funds pay similar benefits with small variations in amounts and no coverage for dependents.

The washable clothing fund is administered by a board of trustees composed of four union representatives. Management is not repre-

sented either on the board or as an advisory committee. However, the retirement fund for this segment of the industry is jointly managed by 4 union trustees and 5 employer trustees. The other six insurance funds are administered by boards of trustees from the unions and an advisory committee of employers as described above in the national men's clothing fund.

Although some administration of claims is carried on by local unions and joint boards, no expenditures are made from the trust funds to pay local unions or joint boards for administration. A greater portion of administration is carried out by the insurance company. All applications and claims originating at the locals are handled as a service without charge; appeals from decisions are also handled in like manner.

For the years 1953 and 1954 almost $14 million was paid to workers covered by the various funds for health benefits, not including the sizable benefits provided to ambulatory patients through the union health centers.

(E) RETIREMENT FUNDS

In December 1945 the men's clothing manufacturers agreed to contribute 3 percent of payroll for a retirement fund operated by the Amalgamated Insurance Fund. At that time the health and welfare fund had a substantial surplus. The parties agreed that the total contribution toward both funds, or 5 percent, could be used during the next 18 months to build up a reserve for the retirement fund. This was done until July 1, 1947, at which time contributions were again channeled to the health and welfare fund.

In January 1947 the retirement fund began paying benefits to applicants who had reached the age of 70 with 20 years in the industry, including 1 year with a contributing employer and 10 years as a member of the union. The benefit matched the amount paid under social security for primary benefits. Retirement benefits were not guaranteed either as to duration or amount, being paid only on an annual basis so that if necessary at the end of the year benefits can be reduced.

Beginning in January 1948 retirement benefits were extended to 65-year-old persons with 20 years in the industry, 10 years of union membership, and 2 years with a contributing employer. In January 1950 it was decided that the fund could not keep pace with the increase in social security benefits and the benefit was set at a flat rate of $50 a month in the men's clothing fund and amounts varying from $25 to $50 in the other retirement funds.

In 1951 the fund provided a retirement benefit for persons who were totally and permanently disabled even though they had not reached the age of 65. Finally, in 1952, the requirement of union membership was dropped but 20 years in the industry is still required and it is necessary to have worked for a contributing employer since December 1945. After December 1965 a minimum of 10 years with a contributing employer will be required for retirement.

Application for retirement is supported by social security, union, and employer records. All applications are passed on by the pension committee which is composed of 2 employer members and 2 members from the national office of the union. Appeals may be had from the pension committee to the executive committee.

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The retirement funds have a regulation that benefits when combined with social security cannot exceed $135 a month. This regulation has been temporarily waived pending an actuarial study now in progress.

A total of more than $13 million was paid to some 13,000 members for retirement benefits in the years 1953 and 1954.

(F) INTERNAL CONTROLS

Three general officers of the international are members of the board of trustees of each fund, thus keeping a measure of control in the international. All members of the boards of trustees and advisory committees serve without compensation.

Each fund employs a staff of auditors who regularly examine the books of the employers to determine whether or not proper contributions have been made to the funds. Discrepancies when found are adjusted. If the employer refuses to make up a deficiency the matter is taken before the impartial chairman of the men's clothing industry. If the award of the chairman is not paid, the fund applies to the State courts to confirm the decision of the impartial chairman and to permit attachment of the property of the employer, if necessary.

(G) EMPLOYER CONTRIBUTIONS AND ADMINISTRATION COSTS

All Amalgamated funds are noncontributory, being financed entirely by the employers. Employer contributions vary not only as between insurance and retirement but also among the various funds in each field. There is, for example, considerable variation in the average age of employees in the diverse segments of the industry and contributions for pensions necessarily differ according to actuarial studies in each case.

Employer contributions as percentages of payroll are as follows:

Fund	Health and welfare	Retirement
	Percent	*Percent*
Men's clothing (national)	3	3
Cotton garment and allied industries (national; also includes laundry workers outside New York City)	3	2
Neckwear (New York City area)	2	3
Laundry (New York City area)	2	1
Washable and sportswear (New York City area)	2	2
Retail (New York City area)	2	3
Cleaners and dyers (New York City area)	2	1
Journeyman tailors (New York City, Scranton, Boston, Philadelphia and Chicago; members generally covered for life and health by men's clothing national fund)	----------	3

Administration costs of the Amalgamated Life Insurance Co. and affiliated funds average 5.9 percent, with 94.1 cents out of every dollar contributed by the employers going directly to payment of benefits. The retirement funds average 4.5 percent for administration costs; 96.5 cents out of every dollar contributed goes directly to benefits payments.

(H) INVESTMENTS

All funds, both insurance and retirement, specifically provide in their charters that fund moneys can only be invested in United States Government bonds. The actual repository for all these securities is a New York trust company.

(I) HEALTH CENTERS

The Amalgamated Clothing Workers maintain 4 health centers, 2 in New York, and 1 each in Philadelphia and Chicago. The Sidney Hillman Medical Center in Philadelphia is typical of these health centers.

The center opened for business on May 7, 1951. Cost of construction and equipment was shared equally by management and the union. Union members each contributed $20 toward the building fund and have not been required to make any further contribution. Initially, clothing industry employers agreed to contribute 0.75 percent of payroll to maintain the center; in March 1953 their contribution was increased to 1.25 percent to provide coverage for dependent spouses of clothing workers. Cotton garment industry employers agreed to pay 1 percent of payroll to cover their employees.

To be eligible, an applicant must have been a member of the union for 4 months and have worked for a contributing employer for 6 months. Services are rendered to the disabled for as long as 1 year after the last date of employment.

The center is a nonprofit corporation; half of the charter members are members of the union and the other half are employer representatives. The board of trustees is also composed of 12 union and 12 employer members, the latter coming from the Philadelphia Clothing Manufacturers Association. The chairmanship alternates each year between the union and the employers. The trustees meet four times a year and their committees meet as may be necessary.

The medical director is appointed by the board of trustees and is responsible for all medical problems. Fifty-four doctors are employed by the center. Each patient is assigned to a certain doctor and the relationship continues as long as attention is needed, unless either the patient or the doctor desires a change.

There are about 23,000 eligible members and about 10,000 dependent spouses. In its first year of operation the center served about 6,000 individuals. During the fiscal year May 1, 1953, to April 30, 1954, the center rendered service to about 7,200 persons; of these, 3,386 were treated for the first time. In the next fiscal year 6,595 persons were treated and of these 2,123 appeared for the first time. The dependent spouses, beginning in April 1953, accounted for about a 12-percent increase. Total visits to all departments in the first year numbered 70,000, increasing to 92,000 in the second year and 125,000 in the third year.

Patients are given unlimited medical care at the center and they may have prescriptions filled at the center's pharmacy at cost. They are not required to pay any fees whatsoever after the initial $20 contribution to the building fund.

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The building and equipment cost a total of $1,280,540 and operating costs are about $350,000 a year which includes an item of $41,000 for depreciation of building and equipment. The center's books are audited once a year by an independent certified public accountant.

E. THE ELECTRICAL INDUSTRY

1. SCOPE AND METHOD OF SURVEY

Information with respect to the general pattern of welfare and pension plans in this industry was obtained through interviews with officials of two major unions, the International Union of Electrical, Radio and Machine Workers, CIO, and the International Brotherhood of Electrical Workers, AFL; contacts with officials of the National Electrical Contractors Association; and through data obtained as a result of questionnaires sent to 37 individual employers in the industry.

2. THE INDUSTRY

For the purpose of this report the electrical industry is defined to include (1) manufacturers of electrical machinery, such as generating and transmission apparatus, appliances, wire and cable, electrical lamps, communication equipment, etc., and (2) electrical contract work comprising the installation-servicing branch of the industry.

Although many manufacturing establishments are small, this branch of the industry also includes such giants as General Electrical, RCA, Westinghouse, and General Motors Corp. Most of the contracting firms are relatively small from an employment standpoint.

No attempt is made in this survey to treat a major segment of the electrical industry which involves large utility companies—for example, Consolidated Edison of New York. Thousands of workers are employed in the utilities branch of the industry, many of whom are represented by the Utility Workers of America, CIO. Because of time and manpower limitations the subcommittee was unable to undertake a sufficient study to comment upon welfare and pension programs in this portion of the electrical industry.

3. THE UNIONS

Most employees of the electrical industry who work in manufacturing establishments are organized under the IUE which has an estimated membership of some 400,000 individuals. About 75,000 additional workers employed in this branch are members of the United Electrical, Radio and Machine Workers of America (independent).

Another major union in the industry, the IBEW, has some 600,000 members, approximately 125,000 of whom are employed by electrical contractors who belong to the National Electrical Contractors Association. The remainder work for various unaffiliated contractors and in different segments of this and other industries, such as utilities, railroads, communications, Government, and manufacturing.

4. COLLECTIVE-BARGAINING PATTERN

The various manufacturers such as General Electric, Westinghouse, etc., bargain directly with the unions in this industry. With respect to welfare and pension matters, IUE international staff representa-

tives frequently assist field negotiators in their bargaining. In some instances this union engages in "chain bargaining," particularly with large manufacturers having plants in several parts of the country employing members of many different IUE locals. In such instances the various locals send delegates to a single city, usually one in which the company's principal office is located, and a master contract is negotiated covering all union members employed by the company. Thus welfare and pension plans of several major manufacturers which apply to IUE members are uniform throughout the facilities of the employer regardless of location.

Some large companies, whose principal operations fall within another industry, also have important operations in the electrical industry. These companies conduct collective bargaining negotiations with several unions. Ordinarily, the welfare and pension plans negotiated with one predominant union are extended to other hourly rate employees of the company regardless of which union represents them. A prime example is General Motors Corp. whose insurance and pension plans are discussed in section VI, A of this report. GM has a major line in the electrical industry, its Frigidaire division, which employs a large number of IUE members; however, the corporation negotiates primarily with the United Automobile Workers which represents the overwhelming majority of its hourly rate employees. The insurance and pension programs as established or modified in negotiations with the UAW are extended by agreement with IUE negotiators to the latter's units at Frigidaire. In effect then the benefits derived by IUE members and those represented by other unions in GM are the result of collective bargaining between the corporation and the UAW.

The collective bargaining pattern in the electrical contracting and construction segment of the industry in which the IBEW is predominant is somewhat different in that the IBEW locals generally carry on collective bargaining negotiations direct with individual contractors or companies. The IBEW and NECA do, however, negotiate as to a single national pension plan which covers half the total IBEW membership. The remaining IBEW members who do not participate in this plan either have no retirement program or are covered, in many cases, by locally negotiated plans which have no relationship to the national program.

5. HISTORY AND EXTENT OF COLLECTIVELY BARGAINED PROGRAMS

The IUE and the electrical manufacturing portion of the industry negotiated and established their first welfare and pension program in 1949; however, several employers—e. g., General Electric—had unilaterally established such plans prior to that time which have continued in effect with modifications and have become a part of the collective-bargaining agreement. Since 1949 establishment of welfare and pension programs has gained great momentum until at the present time, according to IUE estimates, about 95 percent of its membership is covered by welfare benefit plans and about 90 percent by pension or profit-sharing plans.

Welfare plans were first established by negotiations between various employers and the IBEW in the post-World War II period with the greater number coming into being in the period since 1950. There are

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no large contractors comparable to manufacturers such as General Electric and Westinghouse, and so IBEW locals generally negotiate welfare plans with individual contractors. Today, IBEW members are covered under welfare funds in 100 cities throughout the United States. Many also participate in plans negotiated by other unions in the construction or service industries but there are no accurate data available as to precisely how many IBEW members receive welfare benefits.

The IBEW has had its own pension plan in effect since 1928. In 1946, the national pension plan was negotiated with employer-members of the NECA which covers approximately half the IBEW membership and which has been integrated with the union's own original program. Of the remaining IBEW members, as previously pointed out, many are covered by locally negotiated plans.

6. PENSION PLANS

Some companies, such as General Electric, had voluntarily established pension programs prior to 1950. However, beginning in that year, the IUE and the electrical manufacturers established noncontributory pension programs through collective bargaining. These programs are negotiated on a benefits basis, the employer agreeing to provide specified retirement benefits and handling the entire administration of the program. The pension is usually computed at a fixed sum multiplied by years of service. Two such plans, for example, provide a monthly pension of $1.50 times the number of years' credited service not to exceed 35, a maximum of $52.50 a month, in other words. These pension benefits are paid regardless of any social-security benefits to which the employee may be entitled.

With very few exceptions IUE plans are unilaterally administered by the employers. Each program provides for a joint labor-management committee, however, which reviews the operation of the program insofar as it affects IUE members. This committee has no function in the administration nor any voice in such matters as investment of the pension trust, nor does it as a general rule receive any information concerning such matters.

The IUE is involved in a few pension plans which are jointly administered by employer-employee representatives. One such plan, for example, covers 900 workers employed by a single New York manufacturer.

There are some 27 different plans established in negotiations between the IUE and electrical manufacturers which provide profit-sharing, severance pay, or combinations of both these features. Under such plans the employer sets aside a percentage of his profits each year, distributes a portion to the employees and deposits the remainder in a trust fund for the payment of severance and/or pension benefits. Most of these plans have vesting provisions. They are administered by the employers although joint labor-management committees review their operation and receive reports from the employers on such matters as investments and financial operations.

The IBEW established its own pension plan in 1928 which was financed by monthly assessments against participating members. Originally, each participant paid 37 cents a month into the pension fund which amount was increased from time to time to the present $1.60

a month. The plan originally provided for a monthly pension of $40 to participants with 20 years' continuous standing in the union and who were 65 years old. The pension was increased to $50 in 1946. This fund is administered and controlled by the IBEW itself and is known as the pension benefit fund.

It is important to note that the IBEW has two classes of members, designated as "class A" and "class BA." Only the class A members participate in the pension benefit fund plan through monthly assessment of $1.60. There are approximately 300,000 such members. The remaining 300,000 class BA members pay a monthly per capita tax of 70 cents to the international and do not participate in the pension plan.

On October 1, 1946, the IBEW and the National Electrical Contractors Association (NECA) entered into an employees' benefit agreement creating a retirement program for IBEW class A members to which the contractors would contribute. The plan commenced operation on May 5, 1947, following approval by Internal Revenue. The agreement created a national employees' benefit board consisting of 15 members, 7 from the IBEW, 7 from NECA, and 1 public member. It provided that each electrical contractor employing IBEW members would pay 1 percent of gross payroll to a local board. (Local boards, also created in the agreement, were to consist of 7 members, 3 from IBEW locals, 3 from NECA, and 1 public member, and were to be established in every locality in which a NECA chapter exists or where a collective bargaining agreement existed between NECA and IBEW locals.) The local board was to remit the 1 percent payroll assessments to the national board each month. The national board, in turn, was to pay a lump sum from these assessments to a board of trustees which amount was to match the contributions of all participating IBEW class A members to the pension benefit fund. These payments were to be made to the trustees on a quarterly basis and deposited to the pension benefit fund.

When this plan first commenced operation on May 5, 1947, both the IBEW class A member contributions and the matching employer contributions were deposited to the union's pension benefit fund. In the same year, the Labor Management Relations Act became law and prohibited commingling of employer and union funds. Accordingly, a separate fund was created by agreement and is designated as the "pension benefit trust fund." This fund was to be jointly administered by 1 IBEW and 1 NECA trustee and was henceforth to receive that portion of the employer contributions which matched those of IBEW class A members.

It should be noted that the 1 percent gross payroll employer contributions always exceed the amounts which are remitted quarterly to the pension benefit trust fund to match the IBEW member contributions. The surplus, according to a NECA official, is also turned over to the trustees of this same fund for investment purposes.

NECA has a membership of some 3,300 employer-contractors who contribute to the IBEW plan. There are some 7,800 non-NCEA contractors who also contribute to the plan, making a total of about 11,000 employer-contributors.

Of the 300,000 IBEW class A members covered by the plan, only 123,000 are actually employed by electrical contractors who contribute to it. The remaining 177,000 are engaged in utilities, railroads, radio and television, Government work, and manufacturing. Thus, the con-

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tractors, in matching the $1.60 per month contributions of 300,000 class A IBEW members, are actually funding pension benefits for 177,000 additional participants who have no claim on them as employers.

The plan presently provides a monthly pension of $30 for a member 65 years of age and 20 years' union standing; $40 a month with 25 years' standing, and $50 a month with 30 years' standing.

At the present time, there are some 5,589 IBEW pensioners. Their pensions are all being paid from the pension benefit trust fund (to which matching employer contributions are deposited) while the moneys in the IBEW pension benefit fund (into which the $1.60 per month assessments from 300,000 class A members are deposited) are being allowed to accumulate and earn interest through investment. The trustees anticipate that future pension obligations will increase to the point that both funds will be needed to meet the demand.

Full disclosure is made of the operation of this plan to both the beneficiaries and employer-contributors through periodic reports and pamphlets. Annual audits are conducted, the results of which are incorporated in these reports.

Class BA members of the IBEW who do not participate in this plan are covered in some instances under separate pension agreements negotiated by their IBEW locals or under employer pension plans; however, unless they are so covered, or unless they elect to transfer to class A membership after a prescribed period and pay the required monthly assessments, such members receive no pension benefits.

7. WELFARE PROGRAMS

Welfare plans covering IUE member-employees of manufacturing firms are nearly all administered unilaterally by the various employers. These plans are contributory and are bargained on the level-of-benefits basis. The cost of benefits is intended to be shared in equal proportions by employer-employee contributions. The employee contributions are usually fixed while employer contributions are not specified. The employers agree to provide the balance of cost, over and above employee contributions, to purchase agreed-upon benefits through commercial insurance carriers and/or service agencies. In most cases, dividends or retroactive rate credits are returnable to the employers although a few plans provide that these will either be returned to the employees and the company or used in furtherance of the plan.

While these plans are individually negotiated and vary from company to company, benefits range generally as follows: Term life-insurance coverage ranging from $2,000 to $6,000; sickness and accident benefits of from $35 to $42 per week; hospitalization from $7.50 to $12 per day with an expense allowance ranging from $75 to full cost; and surgical expense allowances ranging from $150 to $300.

Welfare plans in the contracting portion of the industry involving IBEW members are negotiated individually with the benefits varying considerably from plan to plan. These programs are administered through jointly managed welfare funds into which employers contribute on a cents-per-hour basis and from which insurance benefits are purchased from commercial carriers and/or service agencies. Typically, these plans provide life insurance, sickness and accident coverage hospitalization and surgical benefits in varying amounts.

F. THE TRUCKING INDUSTRY

1. SCOPE AND METHOD OF SURVEY

The scope of the subcommittee's efforts in this field was restricted by the lack of informed sources able to provide information on a national basis as to specific practices in the welfare and pension funds in the industry. The principal union concerned was able to provide data of only a general nature. Information available from management was very limited. The survey was thus necessarily confined to (*a*) the material received from the union, (*b*) data from questionnaires filed in 1954 by various insurance companies, and (*c*) staff examination of some of the funds in the industry.

2. THE INDUSTRY

The trucking industry was defined for the purposes of this report as synonymous with the jurisdiction of the International Brotherhood of Teamsters, the key union in the field whose organization touches on practically every business using transportation facilities. The union has between 1,300,000 and 1,400,000 union members, in about 1,000 locals. For administrative purposes, the brotherhood is divided into geographic areas and national trade divisions. The four geographic areas are those of the eastern, western, central, and southern conferences. There are 16 national trade divisions: Automotive, petroleum and allied trades; bakery; brewery and soft drink workers; cannery; chauffeurs and taxicab drivers; fresh fruit, vegetable and produce industry; dairy; International Conference of Dairy Employees; laundry, linen and dry cleaning drivers; miscellaneous; newspaper and magazine drivers, handlers and circulation employees; over-the-road; State, municipal, and public service employees; studio, film, theatrical, radio, television, and sound truck chauffeurs; truckaway and driveaway; warehouse.

3. BARGAINING

Bargaining is generally on a local union basis; in many cases, however, the locals deal with thousands of firms, some employing as few as 1 or 2 truck drivers. Due to the variety of employers with whom teamsters unions bargain, the situation, by its very economics, calls for considerable multiemployer bargaining with employer groups and associations.

The international union could not furnish a list of the employers or associations with which it bargains, nor could it give a current estimate of the number of collective bargaining agreements in force. It was stated that there was generally no uniformity of policy with respect to wages or health and welfare plans and that in such matters the local unions are autonomous. However, practically all of the welfare and pension plans are jointly employer-union managed in accordance with the Labor Management Relations Act of 1947.

4. WELFARE PLANS

It was not possible to determine definitely the number of welfare plans being operated currently in this industry or the number of teamsters members covered by welfare plans. As in the case of bargaining agreements, the union could give no estimate as to the number of wel-

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fare plans in which its locals were involved. It was stated that many locals have their own plans; others are in area- or industry-wide plans; and still others are covered by company programs. One official stated that there were about 118 separate welfare plans but only 1 master pension plan in the western conference; that the central conference had a single plan which included the Central States, southeast, and southwest areas; that plans in the eastern conference were for the most part local ones; and that there were many company plans and some area plans.

The American Trucking Association, one of the principal employer associations in the industry, reported that its members do not generally provide information concerning welfare and/or pension plans in which they are involved. The association does review those collective bargaining agreements which are provided it by members, and when provisions are made therein for payments to a welfare and/or pension plan, or when there is any indication that the member is contributing to such funds, the association attempts to secure complete data from the member concerning the fund or funds. However, it was stated that the information gathered through this method was meager and incomplete.

It was determined that 75 percent of the locals in the Central States, southeast and southwest areas are covered by the Central States, Southeast and Southwest Areas Welfare Fund, Chicago, Ill. There are other sizable funds, such as those of the Michigan Conference of Teamsters, and the Ohio Conference of Teamsters, and a number of small local funds, outside the Central States fund.

With respect to the western conference, the majority of the funds appear to have been negotiated on a local level but are grouped for the purpose of administration. Examples are the Northern California Teamsters Security Fund, San Francisco; the Teamsters General Security Fund, the Teamsters Security Fund, the Southern California Teamsters Security Fund, all in Los Angeles; the Teamsters Security Fund, Seattle, Wash., and the Colorado Teamsters Security Fund in Denver.

The greater number of the funds in the eastern conference are negotiated and administered on the local level. There is some grouping of plans for the purpose of administration, especially in the New York City, and New Jersey areas.

Of 1,596 group policies [7] examined by the subcommittee in 1954, but relating to the year 1952, 237 involved locals of the International Brotherhood of Teamsters. One-third of these teamsters group policies, which represented about one-third of the aggregate premium, were issued by one carrier, the Occidental Life Insurance Co. The Union Casualty & Life Insurance Company of New York had only 5 of these group policies which nevertheless represented 11 percent of the total billed premium. The annual billed premium on the 237 policies was $24,275,221. Commissions totaled $1,043,923; fees and allowances, $522,232; and dividends and/or experience rating refunds, $1,269,541.

(A) THE CENTRAL STATES FUND

The largest welfare fund in the industry, that of the Central States, Southeast and Southwest Areas Health and Welfare Fund, became

[7] See sec. IX, pp. 309–347, infra.

effective in November 1949. At that time 20,000 employees were covered under the program. Today, over 90,000 employees together with their families are covered by the plan, and over 3,000 employers contribute thereto.

Employer and union representatives approved a trust agreement and appointed respective trustees and members of an advisory board in March 1950. These trustees, after receiving competitive bids from a number of insurance companies, selected Union Casualty & Life Insurance Co. as the carrier and a contract of insurance was entered into with that company. On March 1, 1950, benefits included life insurance, accidental death and dismemberment insurance, hospital expense benefits, weekly sick and accident indemnity, and surgical benefits. The premium was $3.80 per month per employee.

Benefits have been liberalized from time to time, but types of benefits have remained generally the same. After the first year's operation, the premium rate was reduced from $3.80 to $3.75; however, later, because of unfavorable experience under the life insurance coverage of the policy, the premium was raised to $3.90 per month per employee. Coverage for dependents of some employees commenced in April 1951, and in 1952 under new collective-bargaining agreements dependency coverage was provided for all eligible employees at a premium rate of $3.75. This rate was increased in 1954 to $3.85. In April 1955, the dependency premium for some employees, on whose behalf increased contributions were being made by employers, was raised to $4.91 with an increase in the benefit level.

Employer contributions were originally at the rate of $1 per employee per week. During 1951 a number of employers voluntarily increased their contributions from $1 to $2 per week per member to provide dependency benefits. Early in 1952, under the provisions of the collective bargaining agreement, all employers commenced contributing at the $2 rate. Still later bargaining agreements, in 1955, called for employer contributions at the rate of $2.25 per man per week. As of the time of the subcommittee's review of this program, all employers included in the program were not paying this new rate; however, the union was including this new rate in all bargaining agreements as they became due and were applicable. The additional 25 cents is being used to expand dependency benefits for those employees on whom the increased contribution is being paid.

Contributions have increased from $1,937,000 for the fiscal year ending March 31, 1951, to $7,234,000 for the fiscal year ending March 31, 1955; premiums for the same periods were about $1,551,000, and $6,041,000, respectively.

The fund operates from Chicago, Ill., where it maintains a complete bookkeeping system and a visual record card system on each employer and employee. The office has 55 employees. All employer contributions go directly to a bank and no money is handled by the fund office. Monthly and yearly audits are made by separate accounting firms. The fund is completely self-administered with the exception of payments for claims. Administrative expenses run about 2.4 percent of the fund's income. Trustees receive no compensation other than travel expenses and a per diem allowance in connection with quarterly meetings. The salaries of the executive secretary of the fund and his assistant are paid by the union, the Central States Drivers' Council.

The trustees meet quarterly and chairmanship of the board is alter-

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nated for each meeting between an employer and a union trustee. Annual meetings are held to review the year's experience and operations, to examine reports of the certified public accountant and the report of the investments by the bank, and to negotiate the new insurance contract for the coming year. The advisory board of trustees also meets at this time and is provided with a complete report by trustees of the fund who submit for approval various actions taken by the trustees in the preceding year, as well as the proposals with respect to the insurance contract and coverage for the coming year.

Surpluses of the fund are maintained in an investment account and transfers thereto are made from time to time by the trustees. One bank handles all accounts of the fund, including this investment account. The bank makes all investments using its own judgment and discretion. It reports periodically to the trustees on the investment portfolio, setting forth the types of securities purchased and their yield. As of June 15, 1955, the yield was 3.31 percent, and as of October 1, 1955, a total of $3,700,000 had been invested by the bank on behalf of the fund. No trustee either directs or recommends the type or nature of the investment by the bank and the surplus may be used only for the benefit of the employees in connection with the operations of the fund.

When questioned relative to the need for such a large surplus in the fund, James R. Hoffa, union trustee, advised that the purpose was threefold: (1) To continue payment of premiums in case of a long, drawn-out strike, (2) to meet administrative expenses from trust income, and (3) to offset a possible rise in premium rates.

(B) WASHINGTON MOTOR TRUCK HEALTH & WELFARE TRUST

Another plan, smaller as to the number of individuals covered thereunder, and smaller as to the total amounts contributed by employers and as to the total amounts paid out in premium, but still set up and administered in the same basic manner as the Central States Fund, is the Washington Motor Truck Transportation Employees Health & Welfare Trust in Washington, D. C.

This plan was initiated in 1952 as the result of collective bargaining contracts between Local 639, International Brotherhood of Teamsters, and the Local Motor Transportation Labor Relations Council, Inc., representing local freight handlers in Washington, D. C., and the labor relations council, District of Columbia Trucking Association, Inc., representing over-the-road trucking concerns operating out of Washington, D. C. Subsequently the union has signed contracts with companies not members of the aforesaid councils calling for similar participation in the health and welfare trust. As of September 1, 1955, coverage was being provided 1,926 employees and their dependents, and approximately 200 different employers were contributing.

A trust agreement was entered into and trustees and alternate trustees were appointed by the union and the aforementioned councils. The trustees hired a broker who drew up specifications and then through competitive and sealed bids these trustees selected the carrier for the case, Pacific Mutual Life Insurance Co., of Los Angeles, Calif.

An unusual feature of the bargaining agreement setting up this plan is that contributions are limited for a period of 10 years to 5 cents

per man-hour worked. The rate of contributions cannot be changed, upward or downward, until 1961.

Coverages provided include life, accidental death and dismemberment, sickness benefits, weekly indemnity benefits, hospital and surgical benefits, and doctors' calls; as of October 1955, certain dental benefits were also instituted. The first benefits were paid employees in April 1952, and dependent coverage began in June of the same year. Dependents are covered for hospital and surgical expense benefits, doctors' calls, and maternity benefits.

The plan is administered from a separate office in Washington, D. C. All contributions go direct from the employer to the bank, and no cash is handled in the fund offce except when directed there erroneously by an employer. Individual records are kept on each employer and each employee. The plan is entirely self-administered, except that death claims are paid by the insurance company. All claims are reviewed by the broker in the case as a representative of the carrier, and this broker cosigns the draft drawn in payment of the claim. Books are audited by a certified public accountant quarterly and annually, and reports of these audits are furnished all trustees. A summary of the audit is also given all employers with a statement to the effect that the books of the trust are open to any employee who cares to come in and look at them. The fund office prepares a number of other reports for the trustees which keep them up to date on the situation within the fund as to contributions, delinquent employers, premiums, claims paid, and so forth. The trustees have been particularly careful to see that the brokers in this case are giving full and satisfactory service for the commissions they have received, and they have followed the insurance company closely to assure themselves that the money being retained properly belongs to the company, and not to the beneficiaries of the fund. Administrative costs for the first policy year were 4.5 percent of contributions, in 1953 they were 5.3 percent, and in 1954 they were 8.7 percent.

Contributions for the calendar year ending December 31, 1952, the first year in which the program was in operation, were $115,842.13; for the last calendar year available, 1954, they were $215,475.91. Premiums for the same period were $65,417.99 and $155,357.17, respectively. The program has received total dividends from the insurance carrier of $91,965,000. The fund has a substantial surplus which is invested only in United States Government obligations.

Trustees of the fund receive no salaries. The only salary paid (except to individuals running the fund office) is to a lawyer who acts as a trust adviser. In addition to functioning in this manner, this individual visits all the companies contributing to the fund, examines their books and records with the dual purpose of assuring that they are paying for all employees covered, but are not paying too much through a misunderstanding of their obligations.

(C) OTHER PLANS

There are, of course, numerous smaller welfare plans both on local and area levels. The staff inquired into a number of plans in the New Jersey and metropolitan Washington areas. However, as previously stated, the welfare plans in this industry were almost entirely of the Taft-Hartley type, and as the subcommittee's investigations in 1954

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had been concerned principally with that type of operation, it was not deemed advisable to expend the limited time available in further inquiries in that area.

5. PENSION PLANS

Available information relative to pension plans in the trucking industry was even more meager than that secured with respect to welfare plans. Neither union nor managemet could give any definite figures as to the number of pension plans in operation in this industry.

A very large pension plan in the industry was recently created—the Central States, Southeast and Southwest Areas Pension Fund. It is located in and operated from the same offices as the health and welfare fund of the same name. This pension fund, which is noncontributory, was created by a trust agreement dated March 16, 1955, following collective bargaining agreements between union and management. Under present terms employers are contributing $2 per week per man; contributions commenced February 1, 1955, and no benefits are to be paid until January 1, 1957. Some 10,000 trucking firms, employing 200,000 union drivers and other employees, are included under the plan.

At the present time, trustees representing management and the union have been appointed along with a 36-man advisory board. Contributions are being deposited in the same bank in which the welfare funds of the Central States, Southeast and Southwest Areas Health and Welfare Fund are being deposited. Contributions go directly from the employer to the bank and no money is handled in the pension fund offices. Funds are transferred from a general account to an investment account in increments of $500,000. As of August 31, 1955, the fund had a surplus of $4,242,298.75.

With reference to investment procedures, a bank official and 4 members of a subcommittee, appointed by the board of trustees, utilize 10 to 12 brokerage houses for obtaining offerings for possible investments by the fund. On each specific investment, not less than three bids are secured, and in each purchase the lowest bid of the same offering is chosen.

Currently the fund is conducting a survey by sending personal information cards to all local unions to be executed by members and returned to the position fund office. When all the information has been secured, it is planned to utilize the services of an actuary to study the results and to determine the benefits schedule under the plan.

Another substantial fund in this industry is the Western Conference of Teamsters Pension Trust Fund which was first agreed to on April 26, 1955, and went into effect in May 1955. This plan differs basically from that of the Central States in that it is an insured plan (a group annuity contact), the carrier being Prudential Life Insurance Co. Under the program, the first benefit payments are to commence in 1957. Like the Central States plan, this pension trust fund is financed entirely by employer contributions, contributions being 10 cents per compensable hour per man. Among its features are termination and death benefits. Employees remain covered and retain their service credits though they transfer jobs, so long as they remain members of the union, their service is continuous, and their new employer is a contributor to the fund. All employer contributions, above the necessary expenses of administering the program, go to the insurance company under the group annuity contract.

A feature of the plan which is currently causing considerable concern among a number of employers on the west coast is that under the trust agreement, the trustees may at any time modify, alter, or amend the plan in any respect, retroactively or otherwise, except that no such action other than termination of the plan shall adversely affect any retirement benefit being paid any retired or former employee. In the event of termination of the plan, the available funds shall be allocated in the following order of priority: (*a*) for the completion of the provision for benefits for retired and former employees already receiving retirement benefits but whose benefits are not completely purchased; (*b*) for providing benefits for those employees eligible to retire and receive benefits; (*c*) for providing benefits for former employees who have reached their 65th birthday and for whom no benefits have previously been provided; (*d*) for providing benefits for those employees and former employees having 15 years of continuous service but not having reached their 65th birthday; and (*e*) for providing benefits for other employees and former employees.

Under the current benefit schedule of the Western Conference of Teamsters Pension Trust Fund, benefits range from a low of $40 a month to a high of $75 a month.

G. THE RESIDENTIAL CONSTRUCTION INDUSTRY

At the time of submitting its interim report in July 1955, the subcommittee directed the staff to conduct an industrywide survey of welfare programs in the home and industrial construction field. Limitations of time and personnel precluded such a survey.

The welfare and pension plans in the construction industry are virtually all of the multiemployer, jointly managed type, with contributions from employers on a cents-per-hour basis. There are relatively few large companies. Most contractors are small organizations which hire help on an "as needed" basis and for whom individual insurance programs would be impossible or at best too costly.

The National Association of Home Builders, a nationwide organization representing contractors in the residential construction industry appointed a special subcommittee on health and welfare plans. That subcommittee met in Washington, D. C., in October 1955 and reviewed present State and Federal regulations governing these plans. It also analyzed the problems in the administration of these funds as they applied to their industry and made a series of recommendations. These recommendations were ultimately approved by the board of directors and become official association policy. Briefly, they are:

1. That a yearly audit be required of every health and welfare fund showing disposal of all funds and expenses. This statement to be sent to every employer and employee participating in the fund and be made available as public information.
2. That the insurance commissioners of the various States should establish a uniform rate for benefits and a maximum limit on retention of funds in reserve by insurance companies by appropriate legislation, if necessary.
3. That State or national legislation be enacted providing that investment of welfare funds be limited primarily to the purchase of Government securities or Government guaranteed or insured mortgages in the secondary mortgage market.

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4. That consideration be given to the Securities and Exchange Act for a possible amendment to cover health and welfare plans for the purpose of (*a*) disclosure and (*b*) regulation of the type of investment for such funds.

5. That a 2-year maximum limitation on reserve funds for health and welfare plans be established and that employer contributions to these funds cease when that limit is reached and not recommence until reserves drop to a 1½ year level.

6. That money deposited with the insurance company in the form of premiums should be audited and shown as part of the health and welfare fund audit.

VI. STUDIES OF THREE LARGE PLANS

A. THE GENERAL MOTORS WELFARE AND PENSION PLANS

1. BACKGROUND OF SUBCOMMITTEE'S STUDY

On August 1, 1955, the subcommittee sent a circular letter and a questionnaire to the General Motors Corp. This was a routine request—one of approximately 115 mailed to firms in the automobile and automobile parts industry. The questionnaires were intended to supplement our field survey of the industry and to develop general information on the welfare and pension plan arrangements, as well as to supply statistical information relative to such plans. The letters indicated that the information supplied would be treated as confidential and that information published would not be identified by firm names. General Motors did not reply to the letter within the time requested, and on September 26, 1955, a followup letter was sent to the corporation. A month later, on October 27, 1955, the general counsel of the corporation forwarded the completed questionnaire to the subcommittee with a reminder as to the confidential character of the information. Prior to any analysis of the questionnaire, the understanding as to the confidential nature of the information was confirmed.

The completed General Motors questionnaire indicated that the insurance company retention on the group policy for hourly rate employees, which was carried with the Metropolitan Life Insurance Co., was very high for the size of the policy—approximately 20 percent of premium in 1953 and 10 percent in 1954. Due to this unusual situation, an inquiry was initiated at the Metropolitan Life Insurance Co. for further information. It was found that the gross retention data furnished by the General Motors Corp. included a variety of reserves, but that the actual charges made by Metropolitan for insurance company administrative costs were very reasonable. Further, it was discovered that the reserves in question had been handled in a manner considered by the subcommittee to be unusual. In the light of the admitted fact that the employee beneficiaries under the General Motors group insurance plan or their union representatives had no knowledge of the manner in which such reserves had been treated, the subcommittee decided to continue its investigation of the General Motors group insurance program and dispatched staff members to the General Motors Detroit offices.

Because of the information obtained at the Metropolitan Life Insurance Co. and the fact that the General Motors Corp. is and has long been a pattern setting, rather than a pattern following, corporation, but more importantly, because it is an outstanding example of a level-of-benefits type plan, consideration was also given to obtaining sufficient details to review the General Motors plan in public hearings, already scheduled.

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General Motors bargains with one of the largest unions in the Nation. The General Motors-United Automobile Workers-CIO negotiations are followed with intense interest; what these two powerful organizations agree to will subsequently be disagreed about, or agreed to, in hundreds of other collective bargaining sessions. Half a million General Motors employees, an equal number of stockholders, millions of consumers and thousands of suppliers have an avid interest in General Motors affairs. The General Motors insurance pension plans constitute the largest single private health and old-age security system in the United States. General Motors Health, Welfare, and pension plan arrangements are emulated, reluctantly assented to, or turned down by a host of other firms or unions. The public interest in General Motors welfare and pension arrangements is stronger than the interest in any other comparable plan in the country.

The General Motors insurance program, aside from its importance from the standpoint of sheer size and its pattern making qualities, is most noteworthy because it is the outstanding example of programs negotiated on a level-of-benefits basis, in contrast to programs in which the employer makes a fixed hourly or monthly contribution toward the costs of insurance. The level-of-benefits type of program is by far the most prevalent, not only with respect to other automobile industries but insofar as industries in general are concerned. This type of program is bargained or established on the basis of a list of benefits. However, in collectively bargained plans on a level-of-benefits basis, both management and union negotiators have the cost implications very much in mind. They also bargain as to how the costs of these benefits are to be met—whether solely by the employer or by joint contributions. Frequently, the employees make a fixed contribution toward the total cost of agreed upon benefits, while the employer absorbs the difference. If costs decline employer contributions decline also. If costs go up the employers must pay more. Often there is agreement that, since the employee contributions are fixed and employer costs will fluctuate, the employer will receive any dividends, rate credits, or other payments by the insurance carrier. The General Motors-United Automobile Workers-CIO hourly rate employee agreements incorporate the above features.

General Motors and a majority of other corporations have taken the position that where there is such an arrangement between employees and management whereby employees pay in a fixed amount toward a group insurance program which provides certain fixed benefits and management undertakes to be responsible for the balance of the costs of such a program as well as the administration of it, then management has no responsibility to disclose its share of the costs.

While the subcommittee recognizes the prevalence and success of this type of arrangement in the administration of employee welfare programs, as the costs of management in providing its portion of such programs appears to be as truly a part of the employees compensation for employment as if its contributions had been made on a cents-per-hour or fixed percentage basis, it has not understood the need for secrecy on the part of management in the administration of such programs. It was believed that hearings on the General Motors program would further clarify and bring forth reasons on both the side of management and labor as to the need or lack of need for such secrecy.

On November 18, the corporation was advised that the case might go to public hearing. A formal notification to this effect was sent on November 23, 1955, after further study.

Although subcommittee staff members arrived at General Motors' Detroit offices on November 18, 1955, the information desired of the corporation was not immediately forthcoming and, on November 26, 1955, a subpena duces tecum was served on General Motors, the requirements of which were fully met by December 28, 1955.[1]

On November 29, 1955, General Motors' Vice President H. W. Anderson and others testified in a public hearing in Washington, D. C. Mr. Anderson was reluctant to disclose specific financial details concerning General Motors' program. He stated that his reluctance stemmed from the effects which disclosure of net cost and reverses would have on the corporation's collective bargaining. As a matter of principle, he felt that General Motors should not be required to undress its insurance costs in public.

The members of the subcommittee, fully appreciative of the fact that originally some material had been obtained by questionnaire on a confidential basis were reluctant to require testimony on those points without first hearing an explanation from General Motors as to its reasons for not wishing to publicly disclose financial details with respect to its programs. It was also desired that full consideration be given to all principles involved.

Upon hearing General Motors' position with respect to revealing its group insurance costs, the subcommittee, after deliberating in executive session, decided that the corporation's objections should be overruled, and authorized the chief counsel to "ask such questions * * * as he believes are germane to the case." [2]

The subcommittee had been directed by the Senate to study and investigate welfare and pension plans and funds subject to collective bargaining. The subcommittee, as we stated before, is recommending disclosure legislation to the Senate Committee on Labor and Public Welfare and the Senate. Major questions include: How for shall such disclosure legislation go? What kinds of welfare and pension arrangements should be disclosed? How much information should welfare and pension plans be required to disclose? If the disclosure issue is to be dealt with well, it must be dealt with after mature deliberation and with full and specific knowledge of disclosure's ramifications. The General Motors-United Automobile Workers, CIO, collective bargaining relationship, the subcommittee believes, cannot be seriously affected by disclosure of the details of the General Motors program. Neither party to the relationship is in a position to dominate the other. Then too, the existing (1955) collective agreements do not expire until June 1958—2½ years hence.

General Motors insurance and pension costs are large, but the company's position in the industry is such that present disclosure would not seriously affect its business position vis-a-vis Ford, Chrysler, and its other competitors.[3] Since it illustrates so well so many of the

[1] See correspondence between General Motors and subcommittee, hearings, pt. 3, pp. 1093–1104.
[2] *Ibid.*, p. 1109.
[3] General Motors Vice President H. W. Anderson, testifying on November 29, 1955, when asked whether disclosures would help General Motors' competitors, said: "I did not put it on a competitive basis. I had not thought about competition." Ibid., p. 1104.

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problems behind disclosure legislation, the subcommittee has concluded that a detailed discussion of the case will be in the public interest.

Accordingly, detailed information has been obtained from Metropolitan Life Insurance Co. and General Motors with respect to its group insurance plan, entirely apart from the information originally submitted by General Motors on the questionnaire, and is being set forth below.

There are other reasons for this decision. General Motors' program has been handled at low cost, a result which flows in part from the size of the risk and the fact that General Motors does much of the administrative work. The Metropolitan Life Insurance Co.'s reporting on the case has been detailed and meticulous. Both from the viewpoint of cost and reporting to the policyholder, this may well be called a model welfare plan. The subcommittee believes that other buyers, policyholders and insurance carriers might study the General Motors-Metropolitan example, and with much profit.

2. SCOPE AND MAGNITUDE OF THE WELFARE AND PENSION PROGRAMS

The General Motors Corp. program of welfare and pension benefits in effect for hourly rate and salaried employees is made up of three major elements:

1. An insured program providing (*a*) life insurance with provision for total and permanent disability benefits; (*b*) accidental death and dismemberment protection; (*c*) weekly accident and sickness benefits; and (*d*) post-retirement life insurance. These benefits are on a contributory basis with the employee's contributions and his benefits graduated in roughly direct measure to his hourly pay scale.

2. Arrangements with Blue Cross and Blue Shield agencies which provide hospitalization and surgical benefits for employee and dependents (on a service basis with respect to hospitalization, and to some extent—contingent on family income—with respect to surgical coverage). In contrast to the level-of-benefits approach of the insured segment, the program with respect to Blue Cross and Blue Shield provides that the corporation shall assume approximately one-half the cost of these coverages.

3. A pension program which provides for a monthly benefit with respect to hourly rate workers, after 10 years of service, of the number of years of employment with the corporation multiplied by $2.25. The retirement benefits, paid for in full by the corporation, are exclusive of social-security benefits. Provision is made for early retirement, retirement for total and permanent disability, and for partial vesting.

The pension program for salaried employees consists of (*a*) a contributory program (employees contribute 5 percent of salary in excess of $250 a month) which yields a yearly benefit equal to 30 percent of

the employee's total contribution, and (*b*) a noncontributory program which develops six-tenths of 1 percent of the average monthly salary during final 10 years times years of service.

The insured portion of the welfare program constitutes the largest single private risk underwritten by any carrier, from the standpoints of premium volume and number of workers covered. Some 98 percent of the more than 500,000 wage earners and salaried employees are included. The retirement program is likewise the largest individual private industrial pension program in the country as to the number of employees protected.

3. THE HEALTH AND WELFARE PROGRAM

The corporation's group insurance program dates from 1926 when $1,000 of life insurance was made available to all hourly-rated and salaried employees in return for a monthly contribution of 50 cents. Information on the number of participants in 1926 is not available; by 1935, however, almost 150,000 hourly-rated workers were eligible for coverage, of whom more than 90 percent elected to participate.

Moderate cash sickness and accident benefits were added to the program in 1928. In 1939, provision for hospitalization and a $150 surgical schedule were added to the package. Employees paid a major share of the costs of both of these coverages. In late 1941, the corporation began deduction for Blue Cross and Blue Shield coverage on an employee-pay-all basis.

Effective February 1, 1948, the group insurance plan was substantially revised and improved. Amounts of life insurance and sickness and accident benefits were liberalized. Accidental death and dismemberment, total and permanent disability, and continued life insurance features were added.

On September 1, 1950, the health and welfare program was incorporated in the collective-bargaining agreement in effect between the United Automobile Workers, CIO, and the corporation. The program consisted of (1) an insured portion placed with Metropolitan which embraced life insurance (providing total and permanent disability payments), accident and sickness weekly benefits, and continued life insurance (in reduced amount) for those employees with an attained age of 65 or more, and (2) arrangements with Blue Cross and Blue Shield agencies providing hospital and surgical protection for workers and dependents.

Under the terms of the collective-bargaining instrument, the corporation assumes half the cost of the hospital and surgical programs. With respect to the insured segment of the program, the agreement provided for a stipulated contribution by the employee (both contributions and benefits varied in almost direct proportion to the hourly scale) with the residual cost to be borne by the corporation.

The agreement dated June 12, 1955, between the United Automobile Workers, CIO, and the corporation, liberalized the benefits to be provided but retained the existing rate of employee contributions. The

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present schedule of insurance benefits and of employee contributions is set out below.

Base hourly rate	Benefits							Employee's contribution before age 65: Employee's weekly contribution rate
	Before age 65			Before age 60: Monthly total and permanent disability benefit	Before retirement: Sickness and accident weekly benefit (maximum 26 weeks)	Continuing life insurance after age 65—		
	Life insurance	Extra accident insurance	Total life and accidental death insurance			From minimum with 10 years in plan	To maximum with 20 years in plan	
Under $1.38	$3,500	$1,750	$5,250	$70	$35	$525	$1,050	$0.50
$1.38 to $1.62	4,000	2,000	6,000	80	40	600	1,200	.60
$1.63 to $1.87	4,500	2,250	6,750	90	45	675	1,350	.70
$1.88 to $2.12	5,000	2,500	7,500	100	55	750	1,500	.80
$2.13 to $2.37	5,500	2,750	8,250	110	60	825	1,650	.90
$2.38 to $2.62	6,000	3,000	9,000	120	65	900	1,800	1.00
$2.63 to $2.87	6,500	3,250	9,750	130	70	975	1,950	1.10
$2.88 to $3.12	7,000	3,500	10,500	140	80	1,050	2,100	1.20
$3.13 and over	7,500	3,750	11,250	150	85	1,125	2,250	1.30

It should be noted that in addition to the insured benefits listed above, employees and their dependents are also protected by the provisions of the Michigan Blue Cross and Blue Shield services, or by local protection programs corresponding as closely to the Michigan benefit structures as is possible. These contracts provide comprehensive hospitalization benefits in semiprivate accommodations for periods not in excess of 120 days, and surgical benefits which include in-hospital medical care, diagnostic X-ray, and electrocardiographic service.

(A) COST CONSIDERATIONS

As might be expected, a welfare program of this magnitude entails the expenditure of large amounts of money by both the corporation and its employees. An indication of the dollar volume may be found in the tabulation below, which sets out the contributions of each contributing group from September 1950 through 1954.

Period	Corporation		Hourly-rate employees	
	Insurance	Blue Cross and Blue Shield	Insurance	Blue Cross and Blue Shield
Year:	*Thousands*	*Thousands*	*Thousands*	*Thousands*
1950, September–December	$4,735	$3,220	$3,358	$3,325
1951	14,215	10,060	10,143	10,464
1952	14,645	10,103	9,883	10,562
1953	17,061	12,563	12,503	13,164
1954	15,400	14,164	14,240	15,955
Total	[1] 66,056	47,110	50,127	53,470

[1] Includes accretions to the extended life and rate reduction reserves totaling about $12.5 million. Corporation costs exclusive of these accretions totaled $53,593,000.

Even spread over its hundreds of thousands of employees, the corporation's costs are not insignificant. In 1954, its contribution towards the cost of Blue Cross and Blue Shield protection for wage earners

averaged 1.8 cents an hour; insurance for these workers entailed an average hourly cost of 2.2 cents. The total outlay was approximately 4 cents an hour. According to staff computations, based on material from General Motors, comparable data for earlier years are:

Year	Insurance	Blue Cross	Total
1951	$0.0214	$0.0153	$0.03
1952	.0223	.0158	.03
1953	.0218	.0155	.03

The corporation's costs with respect to its salaried workers was not as large, as shown below, both because they are a much smaller group and because the corporation assumed a smaller proportion of the total cost.

Year	Corporation		Salaried employees	
	Insurance	Blue Cross	Insurance	Blue Cross
	Thousands	*Thousands*	*Thousands*	*Thousands*
1950	$2,852	$788	[1] $10,887	$843
1951	2,879	2,674	5,152	2,881
1952	[2] (234)	3,061	5,508	3,322
1953	2,604	3,734	6,492	4,052
1954	2,448	2,541	7,305	3,030
Total	10,549	12,798	35,345	14,128

[1] Includes contributions of salaried employees for the entire year and of hourly workers through August 31, 1950.
[2] General Motors received a dividend greater than the premium charges remaining after employee contributions were taken into account; the excess represents in part withdrawals from reserves.

(B) CHANGES IN INSURANCE POLICIES AND RESERVES—SEPTEMBER 1, 1950

Prior to September 1, 1950, both hourly rate and salaried employees had been protected by a single insurance contract referred to hereinafter as policy A. (There were, in fact, several policies but almost all employees were covered by policy A or precedent policies without distinction as between hourly and salaried workers.)

The contributions of hourly rate workers, salaried employees, and the corporation toward the total net cost of insurance for the period January 1, 1941–August 31, 1950, were approximately $55 million for hourly rate employees, $46 million for salaried employees, and $31 million for the corporation, respectively.[4] The contributions of hourly rate employees thus represented approximately 42 percent of the total insurance costs of $132 million over the 10-year, 8-month period. Salaried employees had contributed about 35 percent of the total. The corporation's share was about 22 percent, plus its costs in administering the plan.

On September 1, 1950, following the negotiations which led to the inclusion of the health and welfare program in the collective bargaining agreement, the corporation and the insurance carrier signed a separate contract (hereinafter referred to as policy B) which had application to hourly rate employees only.

[4] Precise data on employee contributions for this period were not available; the figures above were arrived at by the staff on the basis of information furnished by the corporation. The distribution of insurance costs prior to 1941 could not be calculated.

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As of February 1, 1948, provision was made for the continuance of a diminished amount of life insurance to workers with an attained age of 65. During 1949 the policy was amended to permit continuance of life insurance for older employees if the policy was to be canceled with respect to the younger employees. In order to provide, in part, for the eventually substantial costs of this coverage, General Motors and Metropolitan established a so-called extended life (or old-age continuance) reserve.[5] On August 31, 1950, accretions to this special reserve totaled approximately $6,600,000. At the same time, normal contingency reserves aggregated roughly $3,570,000, and the rate-reduction reserve had a balance of approximately $2,110,000. These reserves, in total, amounted to approximately $12,280,000.[6]

On September 1, 1950, when policy B became operative with respect to hourly rate workers, all of the above reserves were retained under policy A which continued in effect for salaried employees. The corporation testified that "the new policy * * * was given the protection of the reserves, if required, which had been accrued under the old policy."[7] With respect to the extended life reserves, at least, the possibility that there would be any immediate drain on them was remote. It was reported that beginning with 1954, reserves under policy B had reached the level where access to the reserves credited under policy A was no longer required.

As a consequence of the retention of all reserves under policy A, a substantial proportion of the premium charged under policy B was expended on the establishment of the necessary reserves.[8] As a corollary, policy A, with greatly reduced reserve requirements, could and did yield substantial dividends to the General Motors Corp.

The effect of this treatment of reserves was to increase the corporation's costs with respect to policy B and to reduce its costs with respect to policy A.

4. SPECIFIC INSURANCE PRACTICES UNDER THE GENERAL MOTORS-METROPOLITAN CONTRACTS

The preceding sections summarized the General Motors benefit programs, outlined the allocation of premiums between employer and workers, and showed how reserves were handled when (on September 1, 1950) the hourly rated employees were covered by a new policy. The size, diversity, and unusual treatment of the reserves, too, warrant more description.

(A) METROPOLITAN'S CHARGES (RETENTIONS)

Insurance company retentions on group insurance cases normally include all charges made and all expenses incurred by the company, exclusive of (1) claims (or benefits) incurred or paid, and (2) divi-

[5] Employees have no incontrovertible interest in the extended life reserves; thus, the corporation may at any time it sees fit, by canceling the provisions of the policy for insurance on retired lives, recapture any or all of the money credited to that account.

[6] Insurance practice provides for determination of surpluses and reserves at the end of each insurance year. On August 31, 1950, the amount of the reserves which had been credited for the first 8 months of 1950 had not been determined. The staff consequently arrived at its August 31, 1950, figure by taking the reserves in being at the end of the 1949 insurance year and adding to it two-thirds of the reserves credited to policy A in 1950.

[7] Hearings, pt. 3, p. 1114.

[8] Application of a 42.7 percent factor (the estimated proportion of total net costs represented by hourly rate contributions) to the $8,700,000 in extended life and rate reduction reserves in being on August 31, 1950, produces an amount of $3,665,000 theoretically derived from hourly employees' contributions.

dends or retrospective rate credits paid or credited to the policyholder. Stated differently, retention equals premiums minus the sum of claims and dividends.

Insurance company practices in retention accounting vary. Generally, however, "retention" includes home office and other company expenses, acquisition, and selling costs (including commissions and fees), premium taxes, and certain reserves accumulated out of premiums and charged against the policy. Retention charges will vary according to claims experience, age of policy, and other factors but, as a general rule, the larger the policy, the lower will be the premium percentage charged as retention [9] and the greater the sums available for benefits (claims) and/or dividends. During the subcommittee's second year of operation it was able, through the cooperation of the insurance industry, to obtain from seven of the largest carriers 1954 data on all their group-insurance experience.[10] Included were 7 large cases, each covering over 100,000 lives. [11] On these 7 cases (which involved annual premiums of about $97 million), retentions came to 3.6 percent of billed premium. By way of contrast, retentions were reported as 5.5 percent for 5 cases covering 50,000 to 99,999 lives, 6.8 percent for 27 cases covering 25,000 to 49,999 lives, and 32.7 percent for 5,962 cases each having less than 50 lives.

The General Motors policy is difficult to compare with the aggregate figures set out in the preceding paragraph. Involving half a million lives, an enormous risk spread, and over $44 million in premiums, the General Motors policy can stand on its own experience as other policies cannot. In the policy year ending December 31, 1954, the Metropolitan's charges for expenses and taxes totaled $1,365,050, or 3.1 percent of earned premiums.[12] Pure retention (excluding premium taxes) came to $496,718, or 1.1 percent of premium. In other words, after paying all claims, setting up claim and policy reserves, and paying a dividend of $4,057,704, Metropolitan charged the policyholder about 1 percent of premium for its services. It should be noted, however, that an additional 2 percent of net premium is credited to the normal contingency fund which, in the event of cancellation, is not ordinarily returnable to the policyholder; in the case of General Motors, because of the special circumstances discussed below, this fund or a portion of it may be returnable. No commissions are paid on the policy; since 1926, it has been handled by direct negotiation between policyholder and insurance carrier. An amount equivalent to the standard commission which would otherwise have been paid (less than 1 percent), however, is charged against the account to reimburse the carrier for expense incurred in servicing.

It should be noted that the corporation is performing many of the functions which, in smaller risks, are normally undertaken by the carrier, that is, administration of claims, writing drafts in payment of claims, soliciting employees for participation, and providing information with respect to the operation of the program.

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[9] Retentions are discussed in the subcommittee's first interim report, 84th Cong., 1st sess., committee print, pp. 24–25, and tables 7 and 8 (January 1955).
[10] Sec. X, p. 349, infra.
[11] Presumably, the General Motors policy is 1 of the 7.
[12] See table 3 (tables are at end of this section) for data on 1954 experience and cumulative policy experience, 1926–54.

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(B) RESERVES

Group-writing companies normally maintain two types of reserves: Claim reserves and contingency reserves. Table 4 summarizes the 1954 reserve experience for the General Motors policies. In the course of the year, General Motors employees received $33,182,106 in insurance benefits; but this figure did not represent the total claim or benefit liability incurred during the policy year. A number of claims had been reported by December 31, 1954, were in process but had not been paid. In addition, a larger number of employees had incurred disabilities during 1954 but had not reported them or applied for benefits. To cover these and other costs (incurred but not yet paid) the insurance company set up additional claim reserves in a net amount of $1,463,640. Many of these claim reserves (or, more correctly in some cases, inventories) can be likened to revolving funds, which are drawn upon and replenished annually.[13] Thus, when a net accretion of $1,463,640 was added to 1953 reserves (totaling $20,243,657 at the end of the year, much of which, in turn, had been paid out during 1954), total claim reserves and inventories increased to $21,706,847 as of December 31, 1954. In addition to the above claim reserves and inventories, the Metropolitan also held four other reserves, largely contingent in nature. These—the normal contingency fund, the old-age continuance reserve, the rate-reduction reserve, and the State assessment reserve—totaled $33,254,716. Thus, told claim reserves and reserves for particular contingencies for both salaried and hourly rate employees totaled over $50 million.

(1) *Claims reserves*

The several claims reserves will be discussed in the order in which they appear in table 3.

Pending claims.—On December 31, 1954, the Metropolitan held $249,569 in reserves for pending death claims, disability claims, and claims for accidental death and dismemberment. These reserves represented an inventory of known 1954 liabilities to be liquidated in 1955.

Unreported claims.—Reserves for unreported claims totaled $10,446,330, covering claims incurred during 1954 but not yet reported to the company. They represented Metropolitan's estimate of the 1955 cost of five types of benefits.[14]

Liability for approved disability claims.—The General Motors group life-insurance policy contains a liberal permanent and total disability clause. Instead of the "waiver of premium" clause found in most group life policies, the General Motors policy provides for monthly benefits of $20 per $1,000 for life insurance for as long as 50 months,[15] in addition to a waiver of premiums during disability. On

[13] An example will clarify the revolving-fund analogy. On December 31, 1953, the General Motors-Metropolitan unreported death and disability reserve was $2,306,330. Of this, $906,330 represented death reserves. By December 31, 1954, over 93 percent of this sum (or $848,053) had been paid out.

[14] The reserve for unreported death and disability claims totaled $2,306,330 on December 31, 1953. It was increased by $100,000 on December 31, 1954—at the end of a year during which premiums increased by over $1 million. As the number of covered employees and the size of benefits increase, so will reserves for unreported claims also increase. For example the new collective agreement signed by General Motors and the UAW-CIO in June 1955, increased maximum health and accident benefits from $45.50 to $85 per week. This liberalization will, no doubt, further increase the reserve for unreported health and accident claims set up on December 31, 1955, and in subsequent years.

[15] For employees with 15 years of service and under 60 years of age.

December 31, 1954, the aggregate liability, past and present, as reported by Metropolitan for this benefit totaled $7,649,807.[16]

Post-conversion mortality charge.—An employee leaving General Motors can convert all or part of his group life insurance coverage to an individual life insurance policy without medical examination. The number of terminated employees converting their group life-insurance certificates to ordinary insurance is small, but the mortality rate among converters is extremely high. Apparently, many of the individuals converting are substandard risks.

Because of the extremely high mortality rate among converting policyholders, insurance companies uniformly assess the group policyholder with a charge for each $1,000 of insurance coverage. The charge goes to offset the adverse experience borne by the ordinary department. In the instant case, the conversion charge is $65 per $1,000 of group life-insurance converted. On December 31, 1954, the total of such charges made over the 28-year life of the General Motors policy was $3,266,413.

(2) *Contingency reserves*

On December 31, 1954, the Metropolitan held four General Motors contingency reserves totaling $33,254,716. During 1954, these reserves were increased by a total of $4,972,037. Two of them—the normal contingency reserve and the rate reduction reserve—are unique and merit discussion. Too, the rate reduction reserve and the old-age continuance reserve, as they have been increased or decreased from time to time, have influenced significantly corporation dividend experience under the policies. Finally, reserves have importance for tax purposes.

Normal contingency fund (reserve).—During the depression years of the 1930's, insurance companies almost universally suffered extremely adverse experience. In 1934, the New York State Insurance Department intimated to several of the major companies doing business in the State that a contingency of catastrophic reserve should be established by crediting 2 percent of the net life premiums to a special contingency fund.[17]

Contingency reserves are sometimes called epidemic or catastrophe reserves. If one group policyholder experiences a catastrophic loss,[18] the claims incurred are charged first against the policyholder's contingency reserve, while any excesses are charged against the insurance company's general contingency reserves.

When first written in 1926, the policy was on a cost-plus basis, with the policyholder fully liable for the costs of upward fluctuations in claims. Correspondence between the insurance company and the policyholder at that time indicated that the General Motors contingency reserve would be interest-bearing, held for the credit of the individual policyholder, and would not be merged with Metropolitan's general contingency reserve.[19]

[16] A full breakdown was not available but General Motors figures suggest that it included $3,201,468 in reserve for anticipated disability payments and $4,448,339 in payments already made. The insurance company credits General Motors annually with 2.5 percent interest on the reserve amount.

[17] Contingency reserves are reflected in insurance company surplus. The amounts accrued are not considered the property of the policyholder and are not normally returnable to the policyholder in the event of termination of the policy.

[18] For example, the Texas City disaster of 1947.

[19] Correspondence indicates that General Motors' contingency reserve is carried in the carrier's annual statements as Special Group Life Reserve for Mortality (or Morbidity) Fluctuations.

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The above arrangements (with certain changes) have been continued down to the present. But 20 years have seen substantial changes in group insurance. According to a General Motors memorandum: [20]

> * * * satisfactory experience and the accumulation of contingency reserves under other policies * * * (have enabled) the Metropolitan * * * to progressively reduce its contingency reserve charges against other policies. As a result, the 2 percent annual charge against the General Motors Corp., which was formerly about as low as that for any policy, is now considerably higher than the charge which would be made under the regular formula for a policy of comparable size.[21]

During 1951, there were discussions between the Metropolitan and General Motors concerning changes in the contingency reserve practices. Metropolitan suggested that the contingency reserves be available for use in meeting "catastrophe" losses incurred by other policyholders. General Motors, in turn, would pay lower contingency charges (less than 2 percent) and could, after final claims accounting, recapture the balance of the reserve in case of policy termination.

No change has been made in the original arrangements. Present arrangements can be summarized as follows: (1) The General Motors contingency reserve is held solely for the protection of the General Motors policy; it is not available to meet excess or catastrophic losses on other groups; (2) apparently both parties to the insurance contract agree that the reserve is not returnable to General Motors on demand; and (3) there is some disagreement about the status of the reserve in case of cancellation. Is it wholly returnable to the corporation? Is it returnable to the corporation to the extent it has not been reduced by claim losses? Or, after application of claim losses, is it returnable to Metropolitan? Officials of the Metropolitan told staff members that these questions are presently "unanswerable in the General Motors case." [22] In any case, the General Motors contingency reserve is subject to different treatment than are the contingency reserves accumulated on other group policies.

Rate reduction reserves.—In fixing group insurance rates, insurance companies provide a margin for unpredictable claim fluctuations. This margin (or overcharge) is included in gross premium rates and ultimately may be returned to the policyholder in the form of dividends. If, however, the insurance carrier can hold larger reserves, "it is not necessary to have as large a margin for contingencies." Under these circumstances, the policyholder may gain, since a rate reduction reserve enables the insurance company to reduce premium rates, thereby reducing employer group insurance costs and premium taxes.

The General Motors policy has had a rate reduction reserve since 1943. The reserve was set up to equal 1½ times the annual amount of premium reductions but is now 1. For example: in 1945, a 6-cent monthly reduction in group life-insurance rates was equivalent to a premium reduction of approximately $830,000 per year. At the end

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[20] General Motors' memorandum Re Contingency Reserves—to R. N. Long, Assistant Comptroller, from W. K. McCallum, October 22, 1951.

[21] Contingency reserve data on another "jumbo" case indicate 1954 charges by the Metropolitan of 2 percent on the life premium and 1.38 percent against premiums for health coverages.

[22] Interviews with Gilbert Fitzhugh and Herbert Stark, December 21, 1955.

of the year, the rate reduction reserve amounted to $1,267,000. Other premium reductions and subsequent increases in volume of insurance increased the reserve to the December 1954 level of $6,367,794.

Old age continuance reserve.—Since February 1, 1948, the General Motors group-insurance program has enabled employees 65 years of age or over to carry a reduced amount of group life insurance without further contribution. The ultimate amount of continued insurance ranges from 15 percent ($500 minimum) to 30 percent of the pre-65 amounts, depending on pay and length of service. Since group renewable term life-insurance rates increase sharply on older lives,[23] it is sound business practice to build up reserves to absorb some of the costs of such continuance. General Motors and Metropolitan have in effect followed such a policy.

At the end of the year 1954, there were 17,088 individuals covered under General Motors' age 65 provision. The estimated actuarial cost of paying out continued life insurance on this group was $16,596,550. An additional 3,234 individuals were expected to qualify under the continuance provision during 1955. The estimated continuance cost for this latter group was $2,980,000, making a total liability of $19,576,550. This is the amount in the insurance carrier's old-age continuance reserve.[24]

State assessment reserves.—These reserves are mandatory reserves set up under the State disability benefit (or wage-loss insurance) laws of New Jersey and New York.[25] The New York assessments, for example, represent contingency reserves charged against insurance companies for possible abnormal future claims from the sick unemployed.

(C) EFFECT OF RESERVES ON INSURANCE COSTS

It is important to understand the significance of reserves, especially the four contingency reserves, for General Motors' group insurance costs. Tables 3 and 5 show an income item, "Interest on reserves." This figure represents the interest at 2.5 percent per annum paid on reserves on hand at the beginning of each policy year. Thus, if there is no change in the interest rate payable during 1955, General Motors will be credited with 2.5 percent [26] interest on $33,254,716 (total contingency reserves on hand at the end of the policy year 1954 or at the beginning of the policy year 1955). Interest of 2.5 percent is payable likewise on the reserve portion of the liability for approved total and permanent disability claims. Finally, Metropolitan also credits General Motors with interest of 2 percent per annum on the so-called mean funds, or the excess of premium income over disbursements under the policies.[27]

Interest on reserves may reduce ultimate premium costs, but the creation and maintenance of reserves has other cost effects as well. Premium taxes and insurace company expenses are directly related to

[23] For New York admitted companies, $1.13 per month per $1,000 at age 50; $3.64 per month per $1,000 at age 65, and $8.13 per month per $1,000 at age 75.

[24] For tax reasons, the individuals protected by the old-age continuance reserve do not have a fixed equity in the reserve. An individual equity would be tantamount to a paid-up life insurance policy and nonforfeitable. Under existing Federal rulings, it would be taxable to the employee as an economic benefit.

[25] General Motors' California employees are covered by a policy written by the Pacific Mutual Insurance Co.

[26] This interest rate is subject to change from year to year.

[27] The calculations for this credit are complex. For interest purposes, the 1954 mean fund approximated about two-thirds of the dividend.

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size of premium. Assuming favorable claims experience, it is to a policyholder's advantage to have premium rates as low as possible. The group insurance premiums paid by an employer are deductible for tax purposes as "ordinary or necessary expenses * * * in carrying on * * * business." Dividends refunded, however, constitute taxable income. Thus, under certain circumstances, it may be to the policyholder's tax advantage to minimize or postpone dividends by increasing reserves. Finally—and most important—the establishment of reserves can level out or reduce (through interest) the ultimate cost of certain types of group-insurance benefits. This is of special importance to companies providing for the continuance of group insurance on retired lives. Principally for this reason, General Motors and the Metropolitan have accumulated a reserve of $19,576,550 to cover the costs of insurance continuance for General Motors employees 65 or older.

In summary, the General Motors reserves are large, but they were not created haphazardly. Actuarial conservatism has played some part in establishing their magnitude but it would be erroneous to conclude that General Motors' reserves are excessive solely because they exceed $50 million. It seems reasonable to conclude that they were set up by the Metropolitan and General Motors for entirely understandable cost and tax reasons.

5. THE PENSION PROGRAM

Pensions for hourly rated personnel came into being October 1, 1950. The plan originally provided for a monthly retirement benefit at normal retirement age (optional at 65, and mandatory at 68) of years of service up to a maximum of 30 multiplied by $1.50. This produced a maximum retirement benefit of $45 exclusive of social security benefits.

The major features of the present program are set out below:

Normal retirement.—Optional at age 65 with 10 years' service, mandatory at age 68. Formula: Years of service times $2.25.

Disability retirement.—Fifteen years' service with no attained age requirement providing employee was actively at work on June 1, 1955, or thereafter. Formula: Years of service times $4.50, which reverts to normal benefit structure at age 65.

Early retirement.—At age 60 or thereafter with 10 years' service. If benefits deferred to age 65, normal retirement formula. If immediate, normal retirement formula actuarially reduced.

Vesting.—For separation between ages 40 and 60 with 10 years' service, separated employee receives a deferred annuity (payable at 65) of years of service after age 30 multiplied by $2.25.

Funding.—By contract, the minimum contribution to the trust fund provided by the collective-bargaining agreement shall equal the normal costs (liability accruing during any year) plus the amount required for a share of 30-year amortization of the past service deficit (the liability with respect to future pensions already accrued when the original or modified plan was written).

Investment policy.—The corporation's investment policy was set forth in a letter of November 8, 1950, directed to each of seven trus-

tees.[28] In brief this policy provided for the following with respect to investments:

Common stocks.—Exclusive of bank and insurance issues, up to 35 percent of combined trust assets;

Preferred stocks and common stocks of banks and insurance companies.—Up to 15 percent of combined trust assets;

Fixed income securities.—Up to 50 percent of combined trust assets;

Maximum in any one industry.—7 percent of the combined trust assets;

Maximum in any one company.—2.5 percent of the combined trust assets;

Maximum, any one company, any one trustee—0.75 percent of the voting stock of the company.

Reference is made to table 6. It will be noted that with but negligible exceptions, the corporation's expression of intent to its trustees has been adhered to.

The salaried employees of the corporation enjoy pension benefits somewhat more generous than those received by General Motors' wage earners: in addition to a noncontributory program which yields six-tenths of 1 percent of the employee's average monthly salary during the terminal 10 years of employment multiplied by years of service, salaried employees are also eligible for participation in a contributory program which provides in return for an employee contribution of 5 percent of salary over $250 a month, an annual retirement benefit equivalent to 30 percent of the employee's aggregate contribution.

The noncontributory program for hourly and salaried personnel was not begun until 1950. However, the assets of the fund have already grown to sizable proportions. Thus:

Year	Corporation contribution	Status at year end
1950	$64,000,000	+$64,000,000
1951	66,770,600	132,492,525
1952	69,178,000	204,785,274
1953	80,747,000	289,061,004
1954	74,300,000	371,227,411

The assets listed above are designed to finance the benefits of both salaried and hourly workers. The assets earmarked for wage earners are, in themselves, sizable; on September 30, 1955, they totaled $261 million.

The corporation's retirement program has already resulted in old-age security for numerous workers. On December 1, 1955, there were approximately 3,401 salaried employees and 13,100 hourly rate employees on the pension rolls.

6. FINDINGS AND CONCLUSIONS

The subcommittee has come to several conclusions after its analysis of the General Motors welfare and pension programs.

1. The history of the General Motors-Metropolitan insurance relationship supports a major subcommittee conclusion, namely, that the

[28] See hearings, pt. 3, pp. 1136–1138.

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informed, intelligent buyer usually secures more liberal treatment from group-writing carriers than does the uninformed or ignorant purchaser. The correspondence between these two giants shows that an able staff of insurance specialists in the General Motors comptroller's office, unaided by an insurance agent or broker, was constantly seeking additional information on the cost (premium rates, premium taxes, and dividends) and the corporate income tax and reserve aspects of all group-insurance coverages. Partly for this reason (although other factors were at least as compelling), General Motors was able to secure the fullest and most complete breakdown of group-insurance costs which the staff of this subcommittee has seen.

2. Insurance company retentions are, in considerable measure, a function of premium volume. As a consequence of the size of the risk and the cost-plus nature of the contract, General Motors has received unusually advantageous treatment from the insurance company. In 1954, pure retention charged totaled 1.12 percent of premium, an amount that represents Metropolitan's costs and additions to surplus. It will be remembered, however, that an additional 2 percent of premium, representing the normal contingency reserve, may belong to Metropolitan. The Metropolitan Life Insurance Co. handles the General Motors normal contingency reserve in preferred fashion; the reserve is not pooled with other normal contingency reserves. Not only does the insurance carrier credit General Motors with interest on five [29] types of reserves, but it also pays interest annually on the so-called mean fund, the amount representing the approximate difference between premiums and the sum of expenses, reserves, and claims.

The accumulation of large reserves has had, and will have in the future, an important effect on General Motors' net insurance costs. The old-age continuance reserve, for example, reduces the future annual corporation cost of the amount of free life insurance provided for employees 65 years of age and older. (If General Motors discontinued its program, this reserve could be returned to the corporation.) Rate reduction reserves have enabled the corporation to pay lower premium rates. Finally, the accumulation of reserves significantly influenced the dividends paid after the hourly rate workers had been covered by a separate Metropolitan policy. During 1952, for example, the United States salaried employees' coverage generated a gross premium of $9,210,714. Claims totaled $7,289,044 (79.1 percent), the expenses and taxes charged by Metropolitan came to $300,942, normal contingency reserves were increased by $184,215, and State assessment reserves were increased $2,023. Thus, $7,776,224, or 84.4 percent of premium, was expended or allocated, leaving $1,433,490 available for dividends. Instead, the dividend which Metropolitan allocated to the salaried policy totaled $3,641,672, the largest share of which (61 percent) came from credits established by reducing the old-age continuance reserve by $1,682,575, and the rate reduction reserve by $538,266.

4. The maintenance of claims and contingency reserves, while understandable and necessary from an insurance viewpoint, obscures the amounts of the corporation contribution toward the cost of insurance

[29] The State assessment reserve, the old-age continuance reserve, the rate reduction reserve, the normal contingency reserve, and the "reserve" portion of the reserve for total and permanent disability claims.

and welfare benefits. For example, in 1952, General Motors made no contribution toward the cost of the welfare benefits provided for salaried workers. This was because the large dividend discussed in the preceding paragraph ($3,641,672) exceeded the corporation's contribution, converting General Motors' 1952 contribution (a debit) into an actual gain (credit) of $233,585.[30] Since General Motors and Metropolitan have full legal and contractual control over dividends and reserves,[31] the same thing could, theoretically, happen with respect to the hourly rate employees. It would appear unrealistic and unfair to permit management and insurance companies to manage these reserves in secrecy without reporting to the employee beneficiaries. These reserves are a part of the costs of insurance. Employees contribute to these costs and management's contributions are recognized by law as part of the compensation for employees' services, and are therefore exempted from taxation.

5. As will be seen in section B below, the per capita costs of the insurance programs of General Motors and United States Steel are somewhat similar. One of the principal differences between the two programs is that in the United Steel program both employee and corporation contributions are fixed by the collective bargaining agreement while General Motors simply guarantees to pay the balance of cost over and above specified employee contributions to provide agreed-upon benefits. Another is that United States Steel regularly makes reports to its hourly rate employees' union representatives as to its exact insurance costs. Without going into the merits of either method of financing insurance programs, the subcommittee believes that the difference in the two approaches is not sufficient to warrant an entirely different concept as to disclosure.

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[30] See table 7.

[31] The GM–UAW–CIO collective agreement (exhibit b–1, art. 1, sec. 3 (a)) specifically provides that the corporation "shall receive and retain any divisible surplus, credits, or refunds or reimbursements under whatever name, made on any such contracts."

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TABLE 3.—*Insurance experience—General Motors and Metropolitan Life—1954 and 1926–54 cumulative* [1]

	1954 experience						1926–54 experience	
	United States hourly employees	United States salaried employees	Canadian employees	Reinsurance	Total dollars	Percent	Dollars	Percent
Total income	$31,031,418	$12,401,734	$1,591,289	$16,105	$45,040,546	100.00	$380,115,136	100.00
Premiums earned	30,604,791	12,026,533	1,567,911	16,028	44,215,263	98.17	375,960,467	98.91
Interest on reserves	426,627	375,201	23,378	77	825,283	1.83	4,154,669	1.09
1. Claims	26,249,248	7,507,475	877,368	11,655	[2] 34,645,746	76.92	[3] 288,606,122	75.93
2. Expenses	975,703	336,541	48,540	4,275	1,365,059	3.03	15,846,692	4.17
Taxes	(4)	(4)	(4)	(4)	868,341	1.93	7,729,378	2.03
Medical examination fees	0	0	0	0	0	0	110,139	.03
Other expenses	(4)	(4)	(4)	(4)	496,718	1.10	8,007,175	2.11
3. Reserves	2,623,303	2,160,932	167,481	321	4,972,037	11.04	33,254,716	8.75
Normal contingency	612,097	240,529	31,359	321	884,306	1.96	6,964,604	1.83
Old-age continuation	1,849,477	1,876,902	45,546	----------	3,771,825	8.37	19,576,550	5.15
Rate reduction	114,822	58,547	90,576	----------	263,945	.59	6,367,794	1.68
State assessment	46,907	5,054	----------	----------	51,961	.12	345,768	.09
4. Divisible surplus	1,183,164	2,376,640	497,900	----------	4,057,704	9.01	42,407,606	11.16
Total	31,031,418	[5] 12,401,588	1,591,289	[5] 16,251	45,040,546	100.00	380,115,136	100.00

[1] Includes several Metropolitan policies, all of which have been pooled for experience rating purposes.

[2] Cash claims, liability for approved disability claims, ($1,107,729), charges for past conversion mortality ($101,174), charges for interest losses under optional mode of settlement provisions ($6,992) and additional claim reserves ($247,745). See table 4 for further details.

[3] Includes cash claims of $255,994,003, claim reserves of $10,695,899, conversion charges totalling $3,266,413, and liabilities for disability claims of $7,649,807. See table 2 for further details.

[4] Not available.

[5] Loss of $146 offset by charge of $146 against United States salaried group.

TABLE 4.—*Insurance reserves—General Motors and Metropolitan Life, 1954 and 1926–54 cumulative*

Item	1954 experience, reserves taken	Cumulative reserves, 1926 to Dec. 31, 1954
(1) Claims	$34,645,746	$288,700,850
A. Cash claims	33,182,106	266,994,003
B. Claim reserves and inventories:		
Pending death claims	−41,555	170,944
Pending disability claims	−27,700	18,000
Pending accidental death and dismemberment claims	32,000	60,625
Unreported death and disability claims	100,000	2,406,330
Unreported health and accident claims	150,000	7,650,000
Unreported A. D. and D. claims	0	75,000
Unreported hospital and surgical claims	5,000	55,000
Unreported physicians' attendance claims	30,000	260,000
Liability for approved disability claims	[1] 1,107,729	[1] 7,649,807
Post-conversion mortality charges	101,174	3,266,413
Charge due to interest loss on optional mode of settlement	6,992	94,728
Total claim reserves and inventories	1,463,640	21,,706847
(2) Other reserves:		
Normal contingency fund	884,306	6,964,604
Old-age continuance reserve	3,771,825	19,576,550
Rate reduction reserve	263,545	6,367,794
State assessment reserve	51,961	345,768
Total	4,972,037	33,254,716
(3) Total, all reserves and inventories (2 plus 1.B)	6,435,677	54,961,563
(4) Premiums earned	44,215,263	375,960,467
(5) Reserves and inventories as percent premiums (3÷4)	14.55	14.62

[1] Includes both claims paid and reserves for future claims.

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TABLE 5.—*Insurance experience, General Motors and Metropolitan Life, 1948 through 1952* [1] [2]

Year ending Dec. 31		Premiums (1)	Interest on reserves (2)	Claims incurred (3)	Dividends (4)	Expenses and taxes (5)	Normal contingency reserve		Rate reduction reserve		Old-age continuance reserve		State assessmet reserve	
							Added during year (6)	End of year	Added during year (7)	End of year	Added during year (8)	End of year	Added during year (9)	End of year
	Reserves accumulated on Dec. 31, 1947							$2, 640, 900		$3, 088, 960	0	0	0	0
1948	Total	$16, 652, 449	$181, 207	$13, 077, 264	[3] $136, 073	$847, 387	$333, 050	2, 973, 950	−$1, 312, 882	1, 776, 078	$3, 750, 251	$3, 750, 251		
	Reinsurance	11, 404	842	10, 489	(4)	2, 078	228							
	Canada	600, 916	6, 035	483, 158	(4)	35, 310	12, 018	(4)	(4)	(4)	138, 187	138, 817		
	United States salaried and hourly	16, 040, 129	174, 330	12, 583, 617	(4)	809, 999	320, 804	(4)	(4)	(4)	3, 612, 064	3, 612, 064		
1949	Total	[5] 18, 738, 831	255, 763	14, 469, 343	[6] 752, 738	859, 816	374, 776	3, 348, 726	257, 313	2, 033, 391	2, 280, 136	6, 030, 387	0	
	Reinsurance	52, 881	897	24, 903	17, 670	9, 675	1, 058							
	Canada	616, 759	9, 371	336, 690	159, 653	31, 003	12, 334	(4)	(4)	(4)	62, 912	(4)		
	United States salaried and hourly	18, 069, 191	245, 495	14, 107, 750	575, 415	819, 138	361, 384	(4)	(4)	(4)	2, 217, 224	(4)	0	
1950	Total	24, 969, 438	335, 398	17, 589, 115	2, 549, 717	997, 700	499, 390	3, 848, 116	737, 141	2, 770, 532	2, 827, 966	8, 858, 353	$103, 807	$103, 807
	Reinsurance	9, 735	37	6, 103		2, 085	195							
	Canada	849, 048	11, 297	450, 296	261, 064	36, 289	16, 982				59, 015	260, 114		
	United States salaried [1]	16, 017, 744	306, 796	12, 052, 068	2, 288, 653	589, 785	320, 353	[8] 3, 681, 780	[7] 131, 096	[7] 2, 164, 487	869, 233	6, 698, 521	58, 643	58, 643
	United States hourly [1]	8, 092, 911	17, 268	5, 080, 648	0	369, 541	161, 860	[8] 166, 336	[7] 606, 045	[7] 606, 045	1, 899, 718	1, 899, 718	45, 164	45, 164
1951	Total	33, 984, 067	462, 963	29, 691, 788	958, 102	1, 154, 637	679, 681	4, 527, 797	0	2, 770, 532	1, 873, 753	10, 732, 106	89, 069	192, 876
	Reinsurance	61, 305	108	40, 968	55, 258	10, 378	1, 226							
	Canada	1, 259, 528	16, 681	711, 441	396, 215	41, 263	25, 191	158, 104	0	89, 966	102, 099	362, 213		
	United States salaried	8, 638, 632	332, 032	6, 748, 856	506, 629	264, 291	172, 772	3, 716, 415	553, 248	2, 680, 566	487, 514	7, 186, 035	20, 238	78, 581
	United States hourly	24, 024, 602	114, 142	22, 190, 523	0	838, 705	480, 492	653, 278	−553, 248	0	1, 284, 140	3, 183, 858	68, 831	113, 995
1952	Total	34, 573, 201	519, 937	26, 509, 905	4, 187, 425	1, 256, 841	691, 466	5, 219, 263	33, 276	2, 803, 808	2, 385, 876	13, 117, 982	28, 349	221, 225
	Reinsurance	14, 489	79	7, 397	4, 345	2, 536	290							
	Canada	1, 347, 390	19, 522	716, 612	541, 408	49, 743	26, 947	185, 051	13, 321	103, 287	18, 881	381, 094		
	United States salaried	9, 210, 714	368, 854	7, 289, 044	3, 641, 672	300, 942	184, 215	3, 900, 920	−538, 266	2, 142, 300	−1, 682, 575	5, 503, 460	2, 023	80, 904
	United States hourly	24, 000, 608	131, 482	18, 496, 852	−382, 513	903, 620	480, 014	1, 133, 292	558, 221	558, 221	4, 049, 570	7, 233, 428	26, 326	140, 321

1953	Total	43,083,396	660,454	31,816,534	3,567,508	1,403,259	861,668	6,080,298	3,305,304	6,103,849	2,716,995	15,804,725	72,582	293,807
	Reinsurance	16,988	97	4,720	8,152	3,873	340							
	Canada	1,756,128	23,612	1,013,900	649,398	57,101	35,123	220,174	−79,014	24,273	103,232	484,326		
	United States salaried	10,678,756	328,030	7,703,921	1,675,264	285,590	213,576	4,114,203	−370,466	1,768,568	1,482,852	6,961,253	16,049	96,953
	United States hourly	30,631,524	308,715	23,093,993	1,234,694	1,056,695	612,629	1,745,921	3,754,784	4,311,008	1,130,911	8,359,146	56,533	196,854

[1] Since Sept. 1, 1950, the GM hourly workers have been covered by a separate policy (No. 15,500G). The "Salaried" figure includes all salaried employees for a 12-month period and the hourly employees for 8 months (policies Nos. 3,200 and 14,000G).

[2] Annual premiums (1) plus (2) equals the sum of (3), (4), (5), (6), (7), (8), and (9) for "Totals." Annual subtotals ("Reinsurance," etc.) will not always add. For example, a 1952 loss of $382,513 on the United States hourly employees was offset against a $382,513 gain for salaried employees.

[3] Does not include surplus of $2,094 on policy No. 12114 and a $419 insurance dividend.

[4] Not applicable.

[5] Figures do not add; so in original.

[6] Does not include $472 reinsurance.

[7] Both "salaried" and "hourly" figures include United States and Canadian employees.

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TABLE 6.—*General Motors Corp. hourly rate employees pension trusts, United States, Sept. 30, 1955*

Funds invested in—	Amortized cost	
	Amount	Percent of total
Fixed-interest securities:		
General Motors Corp	$2,544,000	1.0
General Motors Acceptance Corp	7,618,000	2.9
General Motors Acceptance Corporation of Canada, Ltd	508,000	.2
Other bonds, notes, and debentures:		
United States governments	18,259,000	7.0
Railroads	15,047,000	5.8
Public utilities	34,414,000	13.2
Industrials	30,134,000	11.7
Other	12,662,000	4.9
Real-estate mortgages	6,132,000	2.4
Sale and leaseback agreements	8,364,000	3.2
Oil, gas, and mineral contracts and royalties	2,564,000	1.0
Total fixed-interest securities	138,246,000	53.3
Preferred stocks	16,483,000	6.3
Common stocks:		
Banks	9,801,000	3.8
Insurance	8,443,000	3.3
General Motors (82,275 shares $1⅔ par)	1,813,000	.7
Other	83,419,000	32.1
Total common stocks	103,476,000	39.8
Total funds invested	258,205,000	99.4
Cash	1,536,000	.6
Total funds available (excluding accrued interest)	259,741,000	100.0
Income accrued but not received	1,190,000	
Total funds	260,931,000	

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TABLE 7.—*General Motors Corp. group insurance costs for United States employees, years 1950–54* [1]

Year	Hourly rate employees			Salaried employees [2]			Total hourly and salaried		
	Employee contributions	Corporation cost	Total	Employee contributions	Corporation cost	Total	Employee contributions	Corporation cost	Total
1950	$3,357,647	$4,735,264	[3] $8,092,911	$10,886,808	$2,852,018	[2] $13,738,826	$14,244,455	$7,587,282	$21,831,737
1951	10,142,852	14,214,585	24,357,437	5,152,253	2,879,318	8,031,571	15,295,105	17,093,903	32,389,008
1952	9,883,411	14,644,983	24,528,394	5,508,234	−233,585	5,274,649	15,391,645	14,411,398	29,803,043
1953	12,503,477	17,061,358	29,564,835	6,492,238	2,603,881	9,096,119	18,995,715	19,665,239	38,660,954
1954	14,240,003	15,399,980	29,639,983	7,305,185	2,447,786	9,752,971	21,545,188	17,847,766	39,392,954
Total	50,127,390	66,056,170	116,183,560	35,344,718	10,549,418	45,894,136	85,472,108	76,605,588	162,077,696
Percent	43.14	56.86	100.00	77.01	22.99	100.00	52.74	47.26	100.00

[1] Includes both Metropolitan Life Insurance Co. policies and the Pacific Mutual Insurance Co. policy covering California employees under the California unemployment compensation disability law.

[2] Year 1950 includes all hourly rate employees for 8 months and salaried employees for 12 months.

[3] For period Sept. 1–Dec. 31, 1950.

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B. UNITED STATES STEEL CORPORATION INSURANCE AND PENSION PLANS

1. BACKGROUND OF SUBCOMMITTEE'S STUDY

During May 1955, as part of a general survey of insurance and pension programs in the steel industry, staff members called upon several employers in the industry. Mr. John A. Stephens, vice president in charge of industrial relations, United States Steel Corp., at first declined to meet with the staff, asking instead that a letter be sent outlining the objectives of the interview and specifying the information desired from the corporation. On May 20, 1955, Chairman Douglas wrote to Mr. Stephens setting forth the subcommittee's jurisdiction, its functions, and the reasons for requesting an appointment with him. On June 1, 1955, a member of the subcommittee staff met with corporation officials in New York City.

Present for the corporation were Enders M. Voorhees, chairman of the finance committee; Robert C. Tyson, vice chairman of the finance committee and comptroller; John S. Tennant, general counsel; R. H. Larry, assistant general solicitor; and M. M. Fisher, assistant comptroller. Blake E. Turner, staff member, represented the subcommittee.

The corporation officials described generally the operation of their pension and insurance plans. They declined, however, to furnish any information on the investment portfolio of the pension fund or any other data concerning investment operations. They said that financial data could not be furnished on the insurance program since this information was located in the Pittsburgh offices. They felt that the unions and insurance companies involved should be consulted before making such data available. Copies of United States Steel's insurance and pension agreements with the United Steelworkers of America, as well as copies of the trust agreement for the noncontributory pension plan on hourly paid employees, were furnished in a letter of June 15, 1955, from Mr. Tyson.

In initially declining to meet the subcommittee's request, corporation officials stated that they had no desire to obstruct the subcommittee's work, but took the following position:

1. As to pensions, the agreement provides benefits which are guaranteed by the corporation. The agreement does not in any way bind the corporation to fund the pension plan; United States Steel may provide the specified benefits in any manner it chooses. Therefore, since the method of funding retirement benefits is a matter of internal policy, the corporation feels no obligation to disclose such matters.

2. Disclosure of United States Steel's investment portfolio and other data concerning its investments might seriously hamper future investment operations of the fund.

In a letter dated November 9, 1955, to John S. Tennant, general counsel of United States Steel, chief counsel Paul J. Cotter of the subcommittee reviewed the conference of June 1, 1955, and asked if the corporation's immediate position was accurately understood by the subcommittee. On November 21, 1955, Messrs. Tyson and Tennant hand delivered a letter to counsel.[32] Reaffirming their previous posi-

[32] For this correspondence, see hearings, pt. 3, pp. 1168–1170.

tion they declined to disclose the investment portfolio of the pension fund and its investment operations. They also pointed out that, since the decision to create a pension trust in order to discharge the pension obligations as set forth in the agreement with the union was a matter of internal corporation policy, the operations of the trust were of a like nature. They contended that the subcommittee should not require United States Steel to disclose confidential information on matters not within the scope of United States Steel's agreement with the union. Following this conference the corporation furnished a numer of documents pertaining to the United States Steel insurance program covering the hourly employees.

Shortly after this conference Mr. Tennant again called the chief counsel offering to show (in confidence) the list of pension trust investments to the subcommittee chairman and other members of the subcommittee. Subsequently it was decided to request officials of the United States Steel Corp. in an open session to outline their program and express their views concerning this entire matter.

On November 29, 1955, Messrs. Tyson, Voorhees, and Tennant appeared before the subcommittee in a public hearing. Mr. Tyson read a statement for Mr. Voorhees describing United States Steel's pension and insurance plans. He also read a supplementary statement reiterating the corporation's position on disclosure of pension fund investments. The statement included a general description of such investments which the corporation had prepared in the hope it would serve the subcommittee's purposes.

A subsequent conference was held on December 16, 1955, in the chief counsel's office. This meeting was for the purpose of examining the pension fund's investment portfolio, together with any reports made by the pension fund to the corporation with respect to investments. Messrs. Tennant, Tyson, and Voorhees were again present, along with the chief counsel, Mr. Turner, and two officials of the Securities and Exchange Commission. The latter individuals were present (with United States Steel's consent) to give technical advice on analysis of the investment portfolio.

The corporation representatives offered a list of pension fund investments for the 3-year period ending October 31, 1955, the investments being shown at cost. They declined to disclose the current market value of the fund portfolio, the composite rate of return, or the periodic reports made to the corporation by the pension trust. Again they took the position that such information pertained only to internal operations of the pension trust. They did not wish to disclose the information to anyone outside the corporation, including the subcommittee. They also pointed out that such disclosure might seriously affect the corporation's position in future collective bargaining.

Subsequently, Mr. Tennant telephoned the chief counsel stating that, after reconsideration, the corporation was willing to furnish all the above information to the subcommittee. In view of the many other pressing matters facing the subcommittee, it was decided to let the matter drop.

2. COVERAGE AND ADMINISTRATION OF PROGRAMS

About 260,000 employees are covered by the insurance and pension plans of the United States Steel Corp. Some 180,000 are members of the United Steelworkers of America while 20,000 to 25,000 belong to

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50 to 60 other unions with which the corporation has collective bargaining agreements, i. e., various railroad brotherhoods, sailors, the United Mine Workers, etc. With slight variations, the hourly paid employees represented by all the other unions receive the same benefits as are provided under the agreement with the steelworkers. The corporation's salaried employees receive insurance and pension benefits under separate arrangements.

The insurance and pension programs for hourly rated workers are administered by a nonstock, nonprofit corporation known as the United States Steel & Carnegie Pension Fund, a Pennsylvania corporation acting as agent or trustee for United States Steel. (The United States Steel & Carnegie Pension Fund will be referred to hereafter as the Pennsylvania Corp.) Twenty to twenty-four individuals serve as members of the Pennsylvania Corp., 15 of whom comprise its board of directors, and all of whom are also officers of United States Steel Corp. A committee on finance acts as custodian of all funds in three trusts administered by the Pennsylvania Corp. and also handles investments by the trusts. Four of the finance committee's five members are officials of United States Steel, the fifth being an official of the Pennsylvania Corp. The Pennsylvania Corp. operates under trust agreements with United States Steel. Its staff works under a vice president in charge of investments. He is an official of the Pennsylvania Corp. (but not of United States Steel) and is administratively responsible for the operations of the Pennsylvania Corp. A supervisor of insurance administration and a supervisor of pension administration administer the respective programs subject to his direction.

3. INSURANCE PROGRAM

In May 1935 United States Steel established a contributory group life-insurance program open to all employees, providing life-insurance coverage equal to approximately 1 year's earnings. The balance of the cost above the amount paid by participating employees was met by the corporation. Seven insurance carriers underwrote the program, with the Equitable Life Assurance Society serving as principal insurer.

It should be pointed out that in view of limitations of time and manpower no information was obtained by the subcommittee on the program for salaried employees and the discussion below is confined to that for hourly rate employees.

In November 1949 the corporation signed a collective agreement with the steelworkers union to provide group insurance benefits. The total cost was to be shared equally by the corporation and its employees through contributions from each of 2.5 cents per hour. Subsequent negotiations led to a supplemental agreement on the benefits to be provided from these contributions. The plan commenced operation on March 1, 1950, with the Pennsylvania Corp. as administrator. The same plan was offered to employees of United States Steel represented by the other unions.

Benefits included life insurance, sickness, and accident coverage and hospitalization. Surgical coverage was added in 1951.

The life insurance and sickness and accident benefits were insured with the same carriers which had underwritten the 1935 group insurance plan. At the union's insistence, however, hospitalization cover-

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age and, later, surgical benefits were provided through Blue Cross and Blue Shield.

Equitable Life (continuing as the principal carrier) issued a separate group insurance policy for the new plan, at the same time continuing the policy which had once covered all participants in the corporation's employ. The majority of employees, of course, was covered under the new policy. The old policy was continued to cover disabled employees, those who were laid off and ineligible to participate in the new program, and employees who did not elect to participate in the new plan.

After the 1954 negotiations, the total contribution was increased to 9 cents per hour and additional benefits were provided. Again, the cost was shared on an equal basis by employer and employees. Effective November 1, 1954, the plan provided continued life insurance for employees retiring after that date. To finance this benefit, a monthly assessment of $1.02 per participating employee was charged against combined contributions and paid into a special reserve created by Equitable. No comparable provision was made for employees who retired between March 1, 1950, and October 31, 1954. Although the corporation has no contractual obligation toward such employees, its officials testified that similar benefits nevertheless are provided for them. Those employees are covered under the original policy with Equitable. Employees who retired or will retire during the contract period subsequent to November 1, 1954, are covered under the new policy.

(A) BENEFITS

Life insurance.—The amount of coverage varies according to wage rates. Benefits range from $3,000 to $5,500 for active employees, reduced to $1,250 after retirement. Additional optional coverage is available at the employee's own expense.

Accident and sickness benefits.—The plan provides $40 per week for a maximum of 26 weeks for any one accident or sickness. In case of accidents, payments begin immediately; for illnesses, on the eighth day.

Hospitalization.—Hospital benefits are provided through the National Blue Cross 120-day plan common to the steel industry. This plan provides semiprivate room accommodations for employees and dependents, expenses incurred in the hospital, and a 10-day maternity benefit.

Surgical.—Surgical care is provided through the National Blue Shield plan (also common in many steel programs). It provides reimbursement for surgical operations under a fixed schedule with a maximum of $200.

(B) CONTRIBUTIONS

The employer contributions (fixed at 4.5 cents per employee-hour worked) are collected by the corporation from subordinate companies and divisions each month and turned over to the Pennsylvania Corp. Employee contributions are not made on a fixed 4.5 cents per hour basis. Instead they are computed according to individual wage rate, location of employment and dependent status and translated into fixed monthly amounts which average approximately 4.5 cents per employee-hour for all participants. They are collected through checkoffs and remitted along with the contributions of the employing company or division to the Pennsylvania Corp.

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(C) ADMINISTRATION

By arrangement with the insurance carrier, United States Steel has assumed many administrative functions which would otherwise fall to the carrier (such as processing and paying claims, and maintenance of enrollment and other forms). These tasks are handled by the United States Steel industrial relations, accounting, and payroll departments. During the first 5 years of operation (November 1, 1949, to October 31, 1954) assessments were made against contributions to reimburse the corporation for these administrative costs. As a result of the 1954 negotiations, however, such administrative expenses are now borne entirely by United States Steel. The union has no direct responsibility for the administration of the plan. However, the insurance agreement provides for a joint committee on insurance composed of an equal number of employer and employee representatives. United States Steel submits quarterly reports on the operation of the program to this committee. Thus:

> Full disclosure to that union (Steelworkers) is made with respect to the insurance matters which were collectively bargained; that is, there is full disclosure of moneys collected for insurance, disbursements for benefit coverage, balance of money on hand, detailed costs of benefits by types, details of employees covered, and experience under various benefit provisions.[33]

The joint insurance committee meets approximately six times a year. It is empowered to negotiate changes in the benefit program, if deemed necessary.

The Pennsylvania Corp., as administrator, is the policyholder for the insurance program and receives any dividends accruing as a result of favorable claims experience. These dividends cannot be retained by the Pennsylvania Corp., however, or returned to United States Steel or to the contributing employees, but must be credited to the insurance account and used in furtherance of the insurance program.

(D) FINANCIAL EXPERIENCE

The United States Steel Corp.'s health and welfare program is a costly one. Its policy with the Equitable Life Assurance Society is one of America's largest group insurance policies.[34] On December 31, 1954, there were 196,190 contributing employee participants. During the policy year ending on the same date, the corporation and its hourly rated employees paid, through the Pennsylvania Corp., insurance premiums aggregating $11,161,889.02. In addition, the Pennsylvania Corp. paid Blue Cross premiums of $12,244,846.71 and Blue Shield premiums totaling $4,126,315.55. Thus, total 1954 health and welfare premiums came to about $27.5 million.

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[33] Testimony of Robert C. Tyson, hearings, pt. 3, p. 1150. Representatives of the union concurred with his testimony.

[34] Actually there are seven insurance carriers. Equitable wrote 50 percent of the risk with 6 other companies sharing the balance: Aetna, 7 percent; General American, 10 percent; John Hancock, 3 percent; Protective, 5 percent; Prudential, 21 percent; Travelers, 4 percent.

The insurance coverages have been well handled. Retentions by the various insurance companies have been low, averaging slightly less than 6 percent of premium in the 5-year period ending January 31, 1955.

Data on insurance experience for the 5 policy years ending January 31, 1955, are as follows:

Item	Amount	Percent
Premiums	$56,464,913.51	100.00
Incurred claims	44,866,003.29	79.46
Dividends	8,254,608.14	14.62
Retentions	3,344,302.08	5.92

Total premiums paid to Blue Cross for hospitalization in the period March 1, 1950, to January 31, 1955, were $47,233,088.04. Surgical coverage was not originally included in the program but was added in 1951 by agreement between United States Steel and the union. From that time to January 31, 1955, total premiums paid to Blue Shield amounted to $13,816,486.91. This figure also includes in hospital medical premium of $33,992.64, an additional coverage which was incorporated into the program in 1954.

4. PENSION PROGRAM

Its first pension program was established on January 1, 1911, by United States Steel under the trusteeship of what is now the Pennsylvania Corp. At that time the program had trust assets of about $12 million (consisting of about $8 million provided by United States Steel and about $4 million provided by the Carnegie Relief Fund established by Andrew Carnegie in 1901 and called the Carnegie Trust). "Pensions have been paid to retiring employees of long continuous service ever since that time, part of the cost being met out of the income earned on this fund." [35] Until 1939 the pensions were entirely noncontributory. In 1939 this plan was revised in order to "supplement the old-age pension system adopted by the Federal Government in the 1930's." [36] Under this revision the noncontributory plan was terminated with respect to service after 1939 and a new, contributory plan was set up. Under the new plan employee pensions were based on service accrued after 1939 and on earnings in excess of the amount ($3,000) taxable under the Federal Social Security Act. "All employees earning in excess of the amounts taxed under the governmental plan were eligible to participate" on a voluntary basis. "The plan provided upon retirement at age 65 an annual life pension equivalent to 1 percent of the aggregate earnings upon which contributions were made. Participants contribute 3 percent of the eligible compensation and United States Steel contributes the balance necessary to provide the stipulated benefit. * * * These contributions are paid to the Pennsylvania Corp. as trustee under a trust agreement"—the so-called contributory trust.[37]

[35] Hearings, pt. 3, p. 1158.
[36] Ibid., p. 1159.
[37] Idem.

On November 11, 1949, United States Steel for the first time signed a collective-bargaining agreement with the steelworkers to provide pension benefits for hourly paid employees. This noncontributory retirement program covered a 5-year period and commenced operations on March 1, 1950. Benefits were increased under a subsequent 3-year agreement signed in July 1954.

Under the current plan the minimum service requirement for a normal retirement pension at age 65, or a disability pension in advance of that age, is 15 years' continuous employment. The monthly pension equals 1 percent of average monthly earnings for the last 120 months preceding retirement multiplied by the number of years of service, less a fixed allowance of $85 for social-security benefits. For an employee with 30 years of service, the minimum corporation pension is $140 a month less the $85 allowance, or $55. For workers with less than 30 years' service, benefits scale down to a minimum of $110 (less $85) for those with the minimum of 15 years' service.

The pension agreement between the United Steelworkers of America and United States Steel includes the following provision:

> For the purpose of supplying the pension benefits herein provided, the company may establish or cause to be established * * * a pension trust or trusts or may utilize any existing trust or trusts heretofore established. * * * The company * * * is free to determine the manner and means of making provision for funding and paying the pension benefits set forth in this agreement.

The above clauses give the corporation great latitude in administering and financing its pension program. There is no corporate obligation to create a pension trust, nor is there any obligation to fund pension liabilities, whether already incurred or for future service. Its obligation is solely to pay the pensions specified in the collective agreement and it was primarily for this reason that corporation officials were reluctant to disclose details concerning funding. As a practical matter the corporation utilized the "noncontributory trust" and is currently funding "both the current and past service costs" of noncontributory pensions required by the collective-bargaining instrument.

The United States Steel Corp. witnesses at the hearing on November 29, 1955, produced a schedule summarizing investments and other assets held in the United States Steel and Carnegie Pension Fund as of October 31, 1955, which is set forth in table 8. The portion of the amortized cost pertinent to hourly rate employees is about $640 million, according to corporation officials.

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TABLE 8.—*United States Steel and Carnegie pension fund—summary of investments and other assets held in pension trusts, Oct. 31, 1955*

Investments	Face	Amortized cost	Total percent
United States Steel and subsidiaries:			
United States Steel Corp., serial debentures	$67,700,000	$67,415,716	
Elgin, Joliet & Eastern Ry., mortgage	2,658,000	2,699,858	
Pittsburg, Bessemer & Lake Erie RR., mortgage	2,342,000	2,300,394	
Union RR., refunding mortgage	7,212,000	7,212,000	
Total	79,912,000	79,627,968	10.7
(NOTE.—Only investments of the trusts in United States Steel or subsidiary companies.)			
Other bonds, notes, and debentures:			
U. S. Government	160,378,000	160,449,029	21.6
Railroads and equipments	2,239,545	2,240,562	.3
Public utilities	70,414,000	70,750,854	9.5
Industrials	154,454,595	154,568,630	20.8
All other	30,213,500	30,012,817	4.0
Total bonds	497,611,640	497,649,860	66.9
Mortgages		20,892,992	2.8
Oil and gas payments		10,392,673	1.4
Oil royalties		6,842,498	.9
Properties owned and leased		22,870,961	3.1
Preferred stocks		1,704,701	.2
Bank stocks		25,204,422	3.4
Insurance stocks		35,460,601	4.8
Common stocks		122,847,217	16.5
Total		743,865,925	100.0
Less reserves for possible losses		15,389,473	
Net investments		728,476,452	
Cash		2,603,020	
		731,079,472	
Less accounts payable net of receivables		2,974,887	
Net assets at Oct. 31, 1955		728,104,585	

5. CONCLUSIONS

1. The subcommittee believes that United States Steel's position in refusing to disclose information to its beneficiaries relative to its employee pension fund arrangements is untenable. This typifies an attitude of management encountered by the subcommittee. It cannot understand the thinking of management which permits it to use tax-exempt funds for either welfare or pension programs on the basis that such funds are employees' compensation [38] and then take the position that the manner in which such funds are handled is no business of the employees but a secret internal corporation matter.

2. The collective-bargaining agreement guarantees a specific pension benefit during the contract period but an independent funding operation of an undisclosed nature is providing benefits over a longer period of time.

3. There is no problem of disclosure in the United States Steel hourly rate employees' welfare program since it regularly makes full reports to union representatives on these employees setting forth exact insurance costs along with both employer and employee contributions toward the program.

[38] Internal Revenue Code, sec. 162 (a) (1) permits employers to deduct from taxable income moneys spent for welfare and pension programs as compensation for services rendered. Sec. 106 of the code provides that employer payments toward employee accident and health programs are not taxable income, and sec. 401 of the code provides the manner in which the funding of pension plans may be effected to gain tax exemption.

C. THE UMW WELFARE AND RETIREMENT FUND

The study of the United Mine Workers of America welfare and retirement fund for the bituminous coal industry was undertaken as part of the study by the staff of the pattern of welfare and pension plans in a number of representative industries and because the fund is the largest industrywide, jointly managed fund.

Our inquiry included many interviews with the principal officers of the fund and several coal operators, review and inspection of fund records and procedures, and visits to an area medical office and four of the hospitals being built by the fund. Hearings were held on the program and testimony was taken from John L. Lewis, president of the United Mine Workers; Miss Josephine Roche, director of the fund; Dr. Warren F. Draper, executive medical officer of the fund, and Harry M. Moses, president of the Bituminous Coal Operators Association.

1. THE INDUSTRY

Bituminous coal mining is carried on in 25 States and Alaska, with 86 percent of the production coming from 6 States: West Virginia, Pennsylvania, Kentucky, Illinois, Ohio, and Virginia. Some 6,000 mines were in operation in 1954, not counting those mines producing less than 1,000 tons. There is considerable concentration of production in the larger mines. In 1953 the 226 mines producing more than 500,000 tons per year each, constituting only 3 percent of all mines, produced 44 percent of the total tonnage. Total coal production reached a peak of 630 million tons in 1947, declined to 457 million in 1953, and 392 million in 1954. Production in 1955 is running about 20 percent over 1954.

Mechanization of coal mining has been steadily increasing; at present over 80 percent of all underground coal is mechanically loaded and 92 percent is cut by machine. Hence, output per man per day has likewise been constantly mounting. Thus, net tons produced per man per day increased from 6.24 in the years 1945–49 to 8.17 in 1953 and to 9.0 in 1954.

The number of men employed by the industry has been declining since 1923 when 700,000 were employed. In the years 1945–49 the industry employed a daily average of 416,000 men; in 1953, 293,000; and in 1954, about 250,000. Employment in the industry is irregular; the average miner worked 191 days in 1953 and 174 in 1954.

2. THE UNION AND COLLECTIVE BARGAINING IN THE INDUSTRY

Almost all bituminous coal miners are members of the United Mine Workers of America; in a few areas mines are unorganized; several thousand other miners belong to the Progressive Mine Workers Union of America. The UMW has 29 coal-mining districts, each coterminous with a coal-mining field. Each district sends delegates to a national policy committee which meets to frame collective bargaining demands and to ratify agreements made with the coal operators.

The present collective bargaining pattern of the industry is for union representatives to meet with representatives of the Bituminous Coal Operators Association, 1 of the 2 major associations of coal operators, which represents about 65 percent of the total tonnage of the organized industry, and to reach a settlement. The same collective bargain-

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ing agreement is then made with the Southern Coal Producers Association, which represents about 25 percent of the total tonnage. Then the union signs agreements with representatives of the smaller coal-producing associations and with independent producers who belong to no association.

Prior to 1952 there was no continuing association of coal operators representing a substantial proportion of the tonnage of the industry with which the union could bargain. In order to negotiate an agreement, representatives of the union and of the coal operators met in what was designated as a national bituminous wage conference. When an agreement was arrived at, the union would sign contracts on the same terms with the various associations of the operators and with individual operators.

3. HISTORY OF THE FUND

President John L. Lewis of the UMW had long been convinced of the need for a welfare and pension program for miners. He first put forward a demand for a welfare fund in the 1945 wage negotiations. The operators refused. Mr. Lewis did not press it that year, but in the following year it was the principal demand of the union. All of the union's demands were refused by the operators; no settlement was reached and coal production ceased. After a strike, from April 1 to May 22, 1946, the Government seized the mines under the War Labor Disputes (Smith-Connally) Act. On May 29, Secretary of the Interior Krug and the union entered into what became known as the Krug-Lewis agreement. This agreement, among other matters, provided for a welfare and retirement fund to be financed by 5 cents a ton contribution on coal produced for use or sale.

The agreement also provided for a comprehensive survey to be made by the Government of hospital, medical, sanitary and housing conditions in coal-mining areas to determine the improvements necessary to bring these up to "recognized American standards." Rear Adm. Joel T. Boone of the United States Navy was asked by the Department of the Interior to direct this survey. The report of the survey, A Medical Survey of the Bituminous Coal Industry, released in March 1947, made it plain that in many respects the existing medical facilities and services for coal miners were grossly inadequate.

In October 1946 Mr. Lewis charged that the Government was making certain unilateral interpretations of the agreement which in his view breached the contract. Unable to reach a settlement with the Government, the union terminated the agreement on November 20, and coal mining ceased. Secretary Krug held that the United Mine Workers had no right to terminate the agreement and asked for an injunction against the union uder the Smith-Connally Act, which forbade strikes against the Government. Despite a restraining order the strike continued, and on December 3 United States District Judge T. Alan Goldsborough found the United Mine Workers guilty of contempt of court and fined the union $3.5 million and Mr. Lewis $10,000. The miners returned to work. Lewis appealed the case to the Supreme Court, which upheld the Goldsborough decision, fixed the at $10,000 on Lewis but reduced the fine on the union to $700,000.

During this period the fund has been inoperative largely because the Government, as administrator of the coal mines, and the union

could not agree upon a neutral trustee. The Centralia mine explosion on March 25, 1947, in which 111 miners lost their lives, stimulated agreement on a neutral trustee, and Thomas E. Murray was so named. On April 18 the trustees—Capt. N. H. Collisson, the Administrator of the mines for the Government, John L. Lewis for the union, and the neutral trustee—met and as their first act authorized payment of death benefits of $1,000 to the survivors of the miners who had died in the Centralia disaster.

On June 30, 1947 the Smith-Connally Act expired and the mines were returned to the operators. A few days later they entered into an agreement with the union under which they agreed to the welfare fund and to increasing the royalty payments to 10 cents a ton. At that time, Ezra Van Horn became trustee for the operators, replacing the Government Administrator, Captain Collisson.

Up to this time, all benefit expenditures from the fund had been limited to payments of death benefits and to distress benefits, i. e., mainly provision of relief in disaster cases. Payment of pensions had not been initiated because the trustees were unable to agree on the amount of pensions or the nature of a pension program—one of the issues being whether the pension plan should be funded or operated on a pay-as-you-go basis. On January 17, 1948, Mr. Murray resigned as the neutral trustee. Mr. Lewis took the position that the refusal of the operators' trustee to agree to any proposals to activate the pension program amounted to refusal of the coal operators to honor their agreement and on March 15, 1948, the miners again stopped work. Subsequently, Mr. Van Horn filed several suits to prevent operation of the fund.

Failure of mediation efforts to end the work stoppage led President Truman to invoke the Taft-Hartley Act. A factfinding board charged that Lewis' circular letter of March 12 to the membership informing them that the welfare fund was unable to function had "induced the miners to stop work," and on April 13 President Truman ordered the Attorney General to seek an injunction against Mr. Lewis and the UMW to restrain them from continuing the strike. Judge Goldsborough issued a restraining order and scheduled a hearing, directing Mr. Lewis and the UMW to show why they should not be held in contempt because of the miners' refusal to return to work.

A few days later, on April 10, the stalemate over the naming of a third trustee for the fund was ended when Lewis and Van Horn agreed on Senator Styles Bridges of New Hampshire. On the day of the contempt hearing, April 12, the trustees met and voted to start pension payments. Lewis informed all local unions of the action and the agreement was honored. Judge Goldsborough held that the miners' return to work at this time did not constitute satisfactory compliance with his order. He proceeded with the contempt case and on April 20 found the union and Mr. Lewis guilty of civil and criminal contempt of court. The union was then fined $1.4 million and Mr. Lewis $20,000.

The trustees had agreed on pensions of $100 a month to men who were at least 62 years old, who had 20 years' service in the industry, and who had retired after May 29, 1946, the date of the Krug-Lewis agreement. The actual payment of pensions was held up because of various suits which had been filed by Mr. Van Horn. With the welfare program still in abeyance the union moved into the 1948 contract

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negotiations. Shortly after a settlement had been reached, Judge Goldsborough rejected Mr. Van Horn's third suit which had challenged the plan. Holding the Bridges-Lewis pension plan "a business-like" proposal, Judge Goldsborough's decision said—

> There seems to be nothing that shocks the mind at the idea that the members of the United Mine Workers who have worked for 20 years under the ground and are 62 years old should get $100 a month pension. Of course, if the fund won't stand it, they will have to change it, but it is meager. It is just enough to keep them from being objects of charity in their old age; it is just enough to give them a little dignity. The court does not think that there is any justification in law or in sound reason for this complaint.

Within the reaching of the 1948 wage settlement the operators removed the last legal roadblock to the operation of the welfare fund by instructing Mr. Van Horn to drop his remaining legal suit. The agreement provided for increasing the fund royalty payments to 20 cents per ton. In September 1948 the fund issued its first pension check.

At about the same time the medical program began operation. In July 1947, Dr. R. R. Sayers, formerly head of the Bureau of Mines, and previously with the United States Public Health Service, had been appointed chairman of the newly created medical advisory board for the fund. The trustees asked the board to study the types and standards of medical and hospital service to be furnished to miners in their communities, to suggest policies for physical rehabilitation, and to develop plans for carrying out the recommendations in Admiral Boone's medical survey of the industry. Dr. Sayers appointed a number of staff people and began developing plans for a medical program.

The first goal of the medical program was the rehabilitation of some of the worst cases of disabled miners, including many paraplegics. These cases were sought out and sent to various rehabilitation centers.

In April 1948, Miss Josephine Roche, a former coal operator and at one time Assistant Secretary of the Treasury, was appointed director of the fund. In September 1948, Dr. Warren F. Draper, a former Deputy Surgeon General of the United States Public Health Service, was appointed executive medical officer of the medical, health and hospital service. Shortly thereafter the medical program became operational; it consisted of (1) hospital care and physician's service in the hospital, office or home for miners who had been disabled for 6 months or more and for their families; (2) hospital and inhospital medical care for working miners and their dependents; and (3) a program of public health and preventive medicine.

It was decided that the fund should itself administer the medical benefits. Ten area medical offices, each under the direction of a doctor, were established. The facilities and physicians available in the coalfields were employed but it was decided to make extensive use of medical centers for difficult cases.

Service for the miners was purchased from physicians and hospitals on a fee-for-service, free-choice basis. The area medical officers worked out the necessary arrangements with doctors and hospitals in their

areas on the basis of reasonable charges for authorized services rendered to miners and their families.

The trustees announced on April 8, 1949 that thereafter pensions would be made available at age 60 instead of 62. However, other difficulties were ahead. The 1948 agreement expired on June 30, 1949, with the union and operators unable to reach an agreement. The union authorized the miners to work only 3 days a week. As a consequence, many of the operators stopped their royalty payments, and in September 1949 the trustees were forced to order a temporary suspension of fund benefits.

The miners began to stop work in protest against nonpayment of royalties and a series of off-again-on-again strikes and work interruptions ensued. Finally in March 1950 the operators and union reached an agreement which became the National Bituminous Coal Wage Agreement of 1950. In addition to a wage increase this provided for an increase of 10 cents a ton in royalties (bringing them to 30 cents a ton), and that the welfare fund would have as its trustees Mr. Lewis as chairman, Miss Josephine Roche, the fund director, as neutral trustee, and Charles Owen of New York as operator trustee. The operators agreed to pay up the royalties which were then in default.

In the fall of 1950 the operators created the Bituminous Coal Operators Association with authority to represent them in dealings with the union. Leaders in this move were the captive mines' interests who were desirous of continuous and stable production in the industry.

With the end of the dispute, the welfare fund reorganized and on June 1 pension payments were resumed. Hospitalization and medical services became available on July 1, but were limited thereafter to hospital care and physicians' services in the hospital for both disabled and working miners. (The provision of physicians' service in the office and home to disabled miners and their families had proved very expensive, subject to abuse, and was abandoned.) On October 12 the trustees announced a new program of maintenance benefits for disabled miners and dependents, and a new program of maintenance benefits for widows and dependent children, including their eligibility for medical and hospitalization services.

Effective October 1, 1952, the bituminous coal wage agreement of 1950 was amended to provide an increase in the royalty to 40 cents per ton.

4. THE LEGAL BASIS OF THE FUND AND ADMINISTRATIVE ORGANIZATION

The present legal basis of the fund is the national bituminous coal wage agreement of 1950, as amended September 29, 1952. This agreement provides for a fund to be designated and known as the United Mine Workers of America welfare and retirement fund of 1950. The agreement provides for payment into the fund by each signatory operator of 40 cents on each ton of coal produced for use or sale. It provides that the fund shall have its place of business at Washington, D. C., and shall be operated by a board of trustees, 1 appointed as representative of the employers, 1 appointed as representative of the union, and 1 a neutral party selected by the other 2.

The agreement names Charles A. Owen as the representative of the operators, John L. Lewis as representative of the UMW, and Miss

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Roche as the neutral trustee. In the event of a deadlock in the future on the selection of a neutral trustee, an impartial umpire shall be selected either by agreement of the 2 trustees or by petition of either of the 2 acting parties to the United States District Court for the District of Columbia.

It is agreed that the fund is an irrevocable trust created pursuant to section 302 (c) of the Labor Management Relations Act, 1947. The purposes of the trust shall be to make benefit payments from principal or income to employees of signatory operators and their families and dependents for medical and hospital care; pensions on retirement or death of employees; death benefits; benefits for wage loss due to occupational and nonoccupational illness or injury; benefits with respect to wage loss not otherwise compensated for by tax-supported agencies; or insurance to provide any or all of the foregoing; or benefits for any and all other purposes which may be specified, provided, or permitted in section 302 (c). However, the precise benefits to be provided are not spelled out in the agreement. The agreement also provides that the trustee designated by the UMW shall be chief executive officer and chairman of the board of trustees of the fund. It is also provided that an annual audit of the fund shall be made by competent authorities designated by the trustees.

The benefits to be made available to miners and their families and the precise conditions of eligibility for these benefits are determined by the trustees. Over the past 5 years the board of trustees has met every other month or so, more recently every third month.

Mr. Lewis accepts no remuneration for his services to the fund. Mr. Owen is paid a salary of $35,000 as trustee. Miss Roche accepts no salary as a trustee, but is paid a salary of $30,000 a year for serving as director. Miss Roche is in full charge of all fund activities and reports directly to the chief executive officer and to the trustees.

The main administrative divisions of the fund are those of medical, health, and hospital services, benefit eligibility, fiscal services, legal services, research and statistics, and public relations. The administration of medical and hospital services is carried out through 10 area medical offices: 3 in West Virginia, 2 in Pennsylvania, and 1 each in Alabama, Kentucky, Tennessee, Missouri, and Colorado. All told, the fund has approximately 400 employees, of whom about half are in the Washington office and half in the 10 area medical offices.

5. INCOME OF THE FUND AND METHOD OF COLLECTION

All revenues of the fund come from the per-ton royalty, plus small additional amounts from interest on bank deposits and returns on investments.

Each signatory operator submits not later than the 10th of each month a statement as to the tonnage produced during the past month together with the contribution due. This is audited by the fund. State and Federal records, such as those of the Bureau of Mines, which show tonnage production by each mine, are consulted by the fund and compared with the employers' reports. When an employer has been delinquent in his contributions for 1 month a notice is sent to him and this is followed up with telegrams or telephone calls. Each union district president is given a monthly list of delinquent employers. The district

president then sends out his representatives to attempt to collect the royalty due under the arrangement.

After an employer has been delinquent for several months, the counsel for the fund takes over and sues the employer to collect the amount due. Local attorneys are used. There are about 30 lawsuits of this type going on all the time. However, less than one-tenth of 1 percent of the contributions must be collected in this manner.

Tonnage collections and total receipts of the fund in each fiscal year from 1951 through 1955 are shown below:

	Tonnage collections	Total receipts
Year ending—		
June 30, 1951	$129,873,886	$130,278,924
June 30, 1952	125,734,819	126,504,522
June 30, 1953	129,690,366	131,482,787
June 30, 1954	132,368,802	134,847,779
June 30, 1955	127,920,180	129,227,658

A comparison of the total tonnage on which contributions are paid with the production of bituminous coal as shown by the statistics of the Federal Bureau of Mines would indicate that the industry is about 80 percent organized; i. e., in the fiscal year 1954 the fund received collections on about 331 million tons of coal as compared with 413 million tons mined in the country as a whole.

6. OVERALL BENEFIT PROGRAM—FUND FINANCES

Over the 9 years of its existence, the fund has had six different benefit programs, namely: (*a*) pensions, (*b*) hospital and medical care, (*c*) distress and disability benefits for disabled miners and subsequently rehabilitation and maintenance aid cash benefits to miners disabled for more than 6 months, (*d*) death benefits (now called funeral expense and widows and survivors benefits), (*e*) widows and dependent children cash aid benefits, and (*f*) disaster benefits.

All benefit programs of the fund are, and have been, self-administered and self-insured; that is, the fund has provided the benefits directly either in the form of cash or services and has never purchased insurance to provide benefits.

At present the fund has four benefit programs, namely: (1) pensions, (2) hospital and medical care, (3) funeral expense and widows and survivors benefits, and (4) disaster benefits. These programs are described in some detail later.

The former programs of rehabilitation and maintenance aid cash benefits to disabled miners, and of maintenance cash aid benefits to widows and dependent children were both discontinued by the fund on April 1, 1954. The program of rehabilitation and maintenance aid cash benefits to disabled miners was in large measure an adjunct of the rehabilitation program. It provided cash benefits of $30 per month to a miner disabled for 6 months or longer, plus $10 for his wife and $10 for each dependent child under 18. These benefits were subject to reduction by any income from other sources that the miner had.

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The former program of cash aid maintenance benefits to widows and dependent children consisted of benefits of $30 a month payable to widows with dependent children. An additional $10 a month was provided for each dependent child under 18. Widows 50 years of age or over without dependent children were eligible for $30 a month. These benefits were also subject to reduction for any other income the widow or dependent children had. The reasons for discontinuing these two programs in 1954 were that the fund found it could not support all of its benefit programs, and that benefits paid frequently took the place of assistance which would otherwise be provided under State welfare programs.

Table 9 shows total receipts of the fund, expenditures for each benefit program, administrative expenses, total expenditures, and the balance on hand at the end of the fiscal year for the period prior to June 30, 1950, and each fiscal year since then, and totals for the entire 9-year period of the fund's operation.

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TABLE 9.—*UMW Welfare and Retirement Fund total receipts, benefits and administrative expense and balance on hand, May 28, 1946–June 30, 1955*

[All figures in thousands]

Fiscal year ending—	Total receipts	Benefits							Administrative expense	Total expenditures	Excess of receipts over expenditures	Balance on hand end of period
		Pensions	Hospital and medical care	Rehabilitation and maintenance aid cash benefits	Death benefits, funeral expense	Widows and dependent children's cash aid maintenance	Disaster benefits	Total benefits				
May 29, 1946–June 30, 1950	$230,081	$42,753	$19,575	$78,344	$34,015	----------	----------	$174,690	$4,329	$179,019	$51,063	$51,063
June 30, 1951	130,279	42,474	25,253	2,697	6,337	$2,569	----------	79,329	2,674	82,003	+48,276	99,340
June 30, 1952	126,505	51,763	49,997	9,338	4,871	6,834	$70	122,871	3,467	126,338	+167	99,506
June 30, 1953	131,453	58,946	56,444	9,159	3,465	6,991	105	135,110	3,854	138,964	−7,481	92,025
June 30, 1954	134,848	64,092	52,210	5,469	3,069	4,396	60	129,296	4,011	133,307	+1,541	93,565
June 30, 1955	129,228	69,896	42,774	----------	2,879	----------	61	115,610	3,575	119,185	+10,043	103,608
9-year totals	882,424	329,924	246,253	105,007	54,636	20,790	296	756,906	21,910	778,816	+103,608	103,608

Over the 9 years of its existence, the fund has had total receipts of $882,000,000; paid out $756,906,000 in benefits; has utilized $21,910,000 for administrative expenses (approximately 3 percent), and, as of June 30, 1955, had a balance on hand of $103,608,000. The present balance was largely built up during the years prior to June 30, 1951. Over the past 4 years fund expenditures have been running at about the same level as receipts.

Assets as of June 30, 1955 consisted of:

Checking and savings bank accounts and petty cash	$37,160,000
U. S. Government securities	45,094,000
Common stock	3,350,000
Notes receivable from Memorial Hospital Association	18,000,000
Other	4,000
Total	103,608,000

Over the years the fund has kept the larger part of its balance invested in Government securities, with the remainder in checking and savings accounts. Only during the last fiscal year did the fund have any other investments. The $3,350,000 in common stock held at the close of the 1955 fiscal year consisted of blocks of three public utility companies: Kansas City Power & Light Co., Cleveland Electric Illuminating Co. and West Penn Electric Co.

(A) PENSIONS

The fund pays pensions of $100 a month to retired miners. The present major eligibility provisions are that the applicant must (1) be 60 years of age or over at the time of filing his application; (2) have completed 20 years of service in a classified job, i. e., a job subject to the collective bargaining agreement in the coal industry, during the 30 years immediately preceding his date of application; (3) have retired after May 29, 1946, the date the first fund was established, following regular employment in a classified job in the mine of an operator signatory to the agreement, and (4) have been regularly employed in a classified job in the coal industry immediately prior to the date the first fund was established. As of June 30, 1955, these pension payments were being received by 59,482 retired miners. Pensioners and their dependents are also eligible for hospital and medical care benefits.

An applicant may file for a pension either through his local union or directly at the Washington office of the fund. The information required of an applicant is extensive. The record of employment in the mines prior to 1937 [39] must be validated by certificates of miners who worked with the applicant during the time shown or by affidavits of employers.

The application blank contains a space for certification by officials of the local union that the applicant is a member of the local and also a space for certification by an authorized representative of the UMW district that the applicant is a member in good standing of the union. However, applications may be filed directly with the fund by miners not members of the union, and fund personnel state that applications are acted upon without reference to current union status.

[39] Post-1947 data available from Bureau of Old-Age and Survivors Insurance.

In the past, various cases have come before the National Labor Relations Board against the United Mine Workers, charging that the welfare and retirement plan was being administered solely for the benefit of UMW members in good standing, in violation of sections 8 (b) (1) and 8 (b) (2) of the Labor-Management Relations Act of 1947. Substantially all of these charges have been disposed of at the NLRB regional office level, either by dismissal, withdrawal, or settlement. Only one resulted in an unfair labor practice complaint proceedings. This case was thereafter closed upon voluntary compliance by the union. In this case, it was agreed that the contract executed March 5, 1950, provided for the consideration of applications for fund benefits regardless of whether or not the applicant was a union member.[40]

Applications for pensions and for all other benefits are processed at the Washington office. If necessary, extensive investigations, including field visits, are made to determine whether or not the applicant meets the eligibility conditions set up by the board of trustees.

Applications which present close questions of eligibility, or for which required evidence has been unobtainable through correspondence, are taken up with the assistant to the director by the supervisor of the examining unit for joint review. If further consideration of the applicant's eligibility status is required, the assistant to the director then presents the application and entire file to a special review committee. The assistant to the director and an assistant comptroller serve on each of these special review committees, and one or more supervisors and senior examiners from the examining units, other than those previously examining the application, are assigned for service on these committees. If the special review committee, after full review of the application, reaches a unanimous decision as to the eligibility status of the applicant, action on it is taken accordingly.

During the fiscal year ending June 30, 1955, 7,061 applications for pensions were received. In the same year there were 6,778 authorizations of pensions and 1,182 denials. Denials amounted to 16.7 percent of the number of applications received.[41] The chief reasons for denial of pensions in this fiscal year were (1) the applicant furnished no proof of 20 years of classified service out of the last 30 years (406 cases); (2) there was no proof of classified employment immediately prior to May 1946 (384 cases); (3) the requested evidence was not submitted; (4) the applicant furnished no proof of age; and (5) the applicant was presently employed in the coal industry.

The subcommittee staff members reviewed illustrative cases of pension applications which had been approved or denied and a small random sample of cases approved for pensions. They were impressed with the businesslike way in which these applications were handled and by the care taken to see that applications were acted upon in accordance with fund eligibility requirements.

The subcommittee either directly or through referral from Senators had received over the past year some dozen letters from miners who were aggrieved because their applications for pensions had been denied. These cases were reviewed in detail with fund personnel. In every

[40] United Mine Workers, case No. 5–cb–43–47, IR358, issued December 21, 1950.
[41] Denials and applications do not add up to number of applications received since applications are not necessarily acted upon in the fiscal year in which they are received.

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instance the denial of a pension was found to be in accordance with the eligibility requirements.

The eligibility conditions for pensions have been changed a number of times. An important change was made in 1953. Prior to this time, the essential eligibility conditions were that (1) the miner must be 60 years of age or older; (2) have retired after May 29, 1946; (3) have been employed in the industry in a classified job for a year preceding retirement, and (4) have had 20 years of service in classified jobs in the industry. In 1953 these conditions were changed to require that the 20 years of service must have been within the 30 years preceding retirement, and that the applicant must have been regularly employed in a classified job immediately prior to May 29, 1946.

These changes have caused a considerable number of persons to be denied pensions who would otherwise have been eligible under the former requirements. (As indicated above approximately a third of all denials in the 1955 fiscal year were on the ground that the applicant had not been employed in the industry immediately prior to inception of the fund.) The main reasons for these changes were that the fund was finding that many individuals who had retired or had left the industry prior to May 29, 1946, were obtaining temporary employment as miners only to qualify for pensions, and the mounting costs of the pension program required some tightening up of eligibility conditions.[42]

Once a pension has been authorized, the pensioner continues to receive it each month until death, or until he resumes employment in the coal industry; its continuance is not affected by subsequent changes in eligibility conditions, and fund personnel state it is in no way contingent upon the pensioner retaining his membership in the United Mine Workers. However, pensioners as a group have no equity in the fund and their pensions could be reduced or eliminated if the financial condition of the fund necessitated.[43]

The pension program is on a pay-as-you-go basis; there is no funding of benefits. The trustees representing the coal operators have on a number of occasions in the past voiced the opinion that the benefits should be funded, but Lewis and Miss Roche have thought otherwise.

Expenditures for pension benefits have increased steadily in the past 5 fiscal years, as shown in table 9, going from $42,473,000 in 1951 to $69,896,155 in 1955. Inasmuch as the program is relatively young, it may be expected that pension costs will continue to increase for a number of years before leveling off.[44]

The total administrative costs allocable to the pension program are calculated by the subcommittee staff to be approximately 1.7 percent of total pension benefits paid.

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[42] The letters received by the subcommittee from some miners indicate a feeling on their part that there is some inequity involved in a situation in which a man may have worked the greater part of his life in the mines and yet be denied a pension because he had not been employed in the industry immediately prior to inception of the program or failed by a few months to have accumulated 20 years of service.

[43] The UMW welfare and retirement fund for the anthracite coal industry, which is set up on the same basis as the bituminous fund, reduced all pensions in 1954 from $100 to $50 a month. The shrinking income of the fund, due to the declining demand for anthracite, was unable to finance the payment of pensions at the former level.

[44] It should be made clear that the fund is, in effect, a unit. There is no real separation of fund income or assets for pensions and for other benefits. The requirement in section 302 (c) of the Labor Management Relations Act, 1947, that moneys intended for payment of pensions shall be paid to a separate trust is met through the fund placing in a separate account from time to time amounts out of which pensions will be paid. Amounts withdrawn from this account may be used for payment of pensions and no other purpose.

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(B) FUNERAL EXPENSE AND WIDOWS SURVIVORS BENEFITS

Funeral expense benefits of $350, and widows and survivors benefits of $650, or $1,000 in all, are provided to miners' widows and survivors who meet the eligibility conditions set up by the board of trustees. Payment of the $350 funeral expense benefit is made immediately upon approval of the application; payment of the $650 widows and survivors benefit is paid at $50 per month for 11 months with a $100 payment for the 12th and last month.

Eligibility provisions require the applicant to prove that the deceased miner was last employed subsequent to May 29, 1946, in a classified occupation in the mine of an operator signatory to the agreement; or that the deceased miner was receiving a fund pension and was not working in any other industry at the time of his death. Survivors eligible for these benefits are the widow, children under 21, and parents entirely dependent upon the deceased. Widows and dependent children of deceased miners who receive survivors' benefits are eligible for hospital and medical care benefits during the year they are receiving these survivors' benefits.

In the fiscal year ending June 30, 1955, funeral expense and survivors' benefits were paid in the amount of $2,879,176 to widows or other dependents of some 3,374 deceased miners.

(C) MINE DISASTER BENEFITS

Benefits are also paid to the dependents of miners killed or seriously injured in mine disasters.

These benefits are authorized in small amounts to tide over the families of mine disaster victims until compensation or other benefits are paid. In the past fiscal year benefits in the amount of $60,642.96 were paid to the families of 240 miners killed or injured in mine disasters.

(D) HOSPITAL AND MEDICAL CARE BENEFITS

The hospital and medical care benefits provided to fund beneficiaries consist of (1) hospitalization in a ward or semiprivate room (or private room if medically necessary), including all special hospital services for as long as may be necessary; (2) physician services while the patient is in the hospital; (3) services of specialists in the office or outpatient department (available only on referral from a general practitioner or by authorization of the area medical administrator); (4) dental services required for treatment of special conditions, e. g., cancer of the mouth; (5) certain expensive drugs and related supplies for nonhospitalized patients, i. e., drugs or other supplies which are required continuously over a considerable period of time, and which if not provided outside the hospital would lead to the necessity of hospitalization. Examples of these items are insulin, cortisone, and provision of oxygen to patients with respiratory diseases.

There are certain exceptions or limitations to the care provided. The only dental care that the fund provides to its beneficiaries is that required in injury and certain diseased conditions. Such care must be approved by the Washington office before any dentistry can

be paid for.[45] The fund will pay for psychiatric care only in acute cases where there is prospect of improvement within a period of approximately 30 days. The fund will not pay for removal of tonsils or adenoids, except under very exceptional circumstances and when such treatment is incidental to the care required for other disease.

The persons eligible for medical benefits under present trustee regulations are: (1) All miners working in a classified job in mines of operators signatory to the agreement; (2) unemployed miners whose last employment was in a classified job with an operator signatory to the agreement; (3) retired miners receiving a fund pension, except for such periods as they may be employed outside the coal industry; (4) the qualified dependents of these persons, namely, their wives, children up to 18, or up to 21 is physically or mentally incapacitated, and fathers and mothers of the miner or of his wife providing they have lived with and been dependent upon the miner for at least one year; (5) widows and survivors of miners for whom cash benefits have been authorized, during the year they are receiving these payments.

Applications for hospital and medical benefits are filed with the fund through the local union. Once a miner has been certified by the trust fund as eligible he retains eligibility until the fund finds that he is no longer connected with the coal industry or otherwise fails to continue to meet eligibility requirements. The fund gets this information from various sources including the local union. The average number of persons eligible for hospital and medical benefits during the 1955 fiscal year was approximately one million.[46]

The area medical offices have drawn up a list of so-called acceptable hospitals. In general, these include all licensed hospitals in the area, considered to be able to provide an acceptable level of care, and whose charges are considered reasonable. The vast majority of hospitals used by miners fall in this category.

In general, hospitals are paid an amount for each day of service equal to the hospital's per diem cost of providing service to inpatients. Hospitals calculate their costs for this purpose by use of the reimbursable cost form developed by the American Hospital Association and several Federal agencies. The per diem cost basis of remuneration is used only for hospitals which provide an appreciable volume of care to miners. Hospitals which serve only a few fund cases a year are paid on the basis of their billed charges.

Upon discharge of the patient, the hospital makes out an invoice on a form provided by the fund and sends it in to the area medical office. If approved, the invoice is sent on to Washington for audit and payment.

Each area medical office has developed a list of so-called participating physicians. In all, there are some 8,000 such physicians throughout the country. In general, participating physicians are those who serve an appreciable number of fund beneficiaries, have asked to be

[45] At one time the fund provided any dental care that was considered necessary for medical care and treatment of the patient. However, this gave rise to continuous trouble and dissatisfaction. The miners could not understand the limitations of the program. Some doctors referred considerable numbers of patients for dental care, others practically none. Costs of the program mounted and at one time reached $2.5 million a year. In 1952 the fund decided to eliminate all dental care except that now provided.

[46] Of these approximately 106,000 were pensioners and their dependents, and approximately 8,000 were widows and survivors receiving cash benefits. Of the remaining 886,000, about 277,000 were miners (employed or unemployed) and 609,000 dependents of these miners.

listed as participating physicians, and have not been disqualified by the fund for any reason.

Participating physicians can hospitalize patients without advance authorization in each individual case. Nonparticipating physicians may also be remunerated by the fund for their services but only after prior authorization in each case from the area medical office. A small number of physicians will not be paid by the fund, i. e., physicians whom the fund has found were abusing the program, were providing an unacceptable level of care, or whose past charges to the fund were unreasonable.

The fund does not have a nationwide fee schedule. It pays physicians their charges, providing these charges are reasonable compared with those of other physicians of similar qualifications in the area. This means that physicians are held to reasonable fees, by fear of being eliminated from the list of participating physicians. (Physicians must accept the fund's payment as full remuneration for their services and cannot make extra charges directly to the patient.)

In a few areas the medical profession has indicated its preference for remuneration in accordance with a specified fee schedule, and such a schedule has been agreed upon. Thus in the Beckley, W. Va., area, the program is paying physicians on the basis of the schedule developed by the Veterans' Administration for paying physicians in West Virginia for services provided to veterans. In the Charleston, W. Va., area, the fee schedule of the local Blue Shield plan has likewise been adopted. It is probable that certain other areas are using the fee schedule of the local Blue Shield plan, the State workmen's compensation program, or the Veterans' Administration, as guides to reasonable charges. In this matter, the Washington office appears to allow considerable latitude to the area administrators.

Statistics have been compiled for each of the 10 areas as to the average payments made for 7 surgical operations and normal and cesarian deliveries. Average charges vary substantially. In some areas amounts paid approximate the scheduled fees or allowances paid by the local Blue Shield plan; in two areas they tend to be in between the high and low schedules for plans with dual schedules of fees;[47] in one area they are very considerably above the scheduled allowances of the local Blue Shield plan, which is, however, entirely on an indemnity basis. In comparing the average payments of the plan with Blue Shield scheduled fees, it must be borne in mind that virtually none of the Blue Shield plans are on a 100-percent service basis, i. e., requiring physicians to accept the scheduled fees as full payment for their services and to make no extra charge to the patient.

In some areas, some physicians who provide a large volume of service to fund patients have been placed on a retainer basis. In a few areas, local unions have stimulated the establishment of group practice units with staff physicians paid on a full or part-time basis. The UMW fund is very much concerned with the quality of medical care received by its beneficiaries and has done a good deal to see that this quality is as high as possible. Probably the major instance of this is the fund's undertaking through the Miners Memorial Hospital Association to

[47] Amounts paid by the plan for specified services and which physicians have agreed to accept as full payment for their services to persons under specified income levels.

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build 10 hospitals in West Virginia, Kentucky, and Virginia. These hospitals are being build in a 100-mile-wide, 250-mile-long area which has been found medically backward, where there are insufficient doctors and hospitals, and the quality of service available is considered by the fund to be unsatisfactory. In these areas the fund felt that it would be wasting money to continue to purchase medical care from the existing facilities.

Upon occasion, the area medical administrators with the cooperation of the local medical society have had disciplinary measures taken against physicians who apeared to be performing unnecessary surgery on fund members. At Dragergon, Utah, a particularly flagrant case of this kind resulted in the local union, with the assistance of the area medical office, establishing a group practice clinic with salaried physicians.

The fund has been concerned with the high rate of hospitalization of its beneficiaries. The fund's hospital admission rate is approximately 180 cases er year per thousand eligible for care. The average stay is approximately 9 days, resulting in an overall hospitalization utilization rate of approximately 1,525 days annually per thousand eligible persons. These rates, especially the admission rate, are far higher than under Blue Cross. In 1954, the admission rate for all Blue Cross plans was 129 admissions per thousand participants, the average length of stay was 7.35 days, and 951 days of care were paid for per thousand participants.

It should be realized that the Blue Cross plans have limitations on the number of days which will be provided under their contracts and that days of care received by subscribers over these limits are not included in the statistics. Consideration should also be given to the fact that the volume of hospital care utilized increases with age and that the fund beneficiaries are, on the average, an older population group partly because of the inclusion of pensioners) than the Blue Cross subscribers.

On the other hand, the hospital utilization rate of the fund is lower than that of the provincewide program in Saskatchewan, Canada, which provides hospital care without limit to the entire population. In this program the admission rate is 204 per thousand beneficiaries and 2,084 days of care are utilized per thousand beneficiaries.

There is reason to believe that, other things being equal, the hospital utilization rate of miners and their families would be higher than that of the general population. One factor is that in some areas many miners live in isolated communities. Physicians, finding it difficult to make home calls, may tend to hospitalize cases which in an urban area would be treated at hime. Another factor is the increasing belief of the mining population that the hospital is the place for care of sick people. Probably the major reasons for the high hospitalization rate, however, are: (1) that the restrictions with respect to nonhospital care encourage excessive hospitalization; and (2) that the medical care available in the mining camps compares unfavorably with what is available at the hospital. A thinrd factor is the historical checkoff system for medical care in many mining communities—a system under which physicians are paid stipulated amounts per month for each man or family on their list. This system gives "list" physicians an incen-

tive to refer patients to hospitals to reduce the burden of their own work without loss of remuneration.

Some of the area administrators have concluded that at least one-fourth of hospitalized cases could have been adequately cared for without hospitalization.

The medical personnel of the fund, recognizing that excessive hospitalization constitutes a waste of fund money, has been making efforts to cut the hospitalization rate. The problems involved have been discussed at length between the area medical administrators and county and State medical society representatives. In the spring of 1955, thef und personnel decided to attack the problem by requiring that in certain areas patients be hospitalized only after prior consultation with an apropriate specialist. General practitioners in the areas involved protested and as a result of organized medical opposition as exressed in a resolution of the house of delegates of the American Medical Association, the fund agreed to waive this step. Instead, the fund decided to work for the development in each hospital of a medical audit committee to review all fund hospitalization cases and call to account those physicians who seemed to be hospitalizing cases unnecessarily.

It is possible that efforts to prevent excessive hospitalization through controls of the above types may be only partially effective. Fund personnel are inclining to the opinion that the solution lies in building up, under fund auspices, the care available to miners and their families in the office and home. Doing this may well involve farflung problems. In many cases, apparently, medical facilities would have to be built and well-trained physicians brought in. Perhaps this could only be done through some system of group practice.

It is recognized by the fund that its present medical program is incomplete, and it would be well if it could be extended to include home and office care. A good part of this care in the coalfields is now, as the Boone report showed, on a prepayment, i. e., list practice basis, paid for by the miners. As had been indicated earlier, the fund ventured at one time into the field of payment for home and office care, but this phase of the program proved so expensive and gave rise to so much abuse that it had to be abandoned.

The fund medical personnel are convinced that it will not be feasible to provide home and office service on an uncontrolled fee-for-service basis. They feel that an approach using the best administrative measures and closely associated group practice, with payment to physicians on a mutually satisfactory basis, might be the solution. The development of group practice units would mean expense for facilities and might evoke considerable opposition from physicians in the areas. While fund personnel recognize the problems, they are convinced that some way of economically providing home and office care must be found.

In general, the program's relations with organized medicine have been good. At any rate, a mechanism has been developed for talking over common problems. In good part this has been due to the diplomacy of the fund's executive medical director, Dr. Warren Draper. In 1952, Dr. Draper. who served for many years as a member of the house of delegates of the American Medical Association, appeared before appropriate bodies of the association to discuss the plans of the fund in providing adequate medical service to its beneficiaries. Out of these discussions grew a meeting in October 1952 in Charleston, W.

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Va., which was attended by the principal medical personnel of the fund and by representatives of the American Medical Association and the State Medical Associations of Virginia, Pennsylvania, West Virginia, Kentucky and Tennessee. The conference provided an area for a frank and full discussion of the problems of medical care for miners, including the problems of excessive hospitalization, excessive or unnecessary surgery, inadequate hospital facilities, and the shortcomings of medical services in the mining communities.

Successive conferences were held in 1953, 1954, and 1955. Appraisal of the results of these conferences is difficult. In any case, they have provided a means by which each group has been able to inform the other of its point of view and its problems. That the organized medical profession appreciates the way in which the fund has gone about the solution of its medical problems may be seen from an editorial from the Journal of the American Medical Association of December 11, 1954, entitled, "A Heartening Example."

> The relationship between the medical profession and the United Mine Workers of America provides a heartening example of how labor and medicine, when each side is represented by medical leaders sincerely devoted to high standards and imbued with a desire for mutual understanding, can work together amicably and effectively in a program to improve medical care for workers. A striking spirit of goodwill and cooperation dominated the third Conference on Medical Care in the Bituminous Coal Mine Area, held recently in Huntington, W. Va., and reported on page 1403 of this issue of The Journal. The atmosphere this year was in marked contrast to that of the first conference 2 years ago, when the air was charged with complaints, fears, and sharp disagreements.
>
> The American Medical Association is more than happy to tell the world about it, for the story reflects credit on all concerned. Labor leaders, labor union medical administrators, and physicians everywhere can learn valuable lessons from the way in which organized medicine and the United Mine Workers have sat down together to iron out a host of difficult problems.

(1) *Miners Memorial Hospital Association program*

The fund, through loans to a nonprofit corporation known as the Miners Memorial Hospital Association, Inc., now is building a chain of 10 hospitals which will provide more than a thousand beds. These hospitals are being built in an area encompassing the southern part of West Virginia, the western tip of Virginia and the eastern tip of Kentucky. One hospital was completed in late 1955, the others will be completed over the next 6 months.

The Miners Memorial Hospital Association is a nonprofit organization, its board of directors composed exclusively of fund employees. The association has derived all its assets by loans from the fund which in June 1955 amounted to some $18 million. A recent resolution of the board of trustees provided for increasing these loans as needed to a maximum of $30 million. The loans are secured by mortgages on the hospitals and will be repaid out of the earnings of the hospitals. The staff which has been engaged to plan, design, contract for construction, and eventually to operate these hospitals are all employees

of the association, the medical administrator of which is Dr. Frederick D. Mott, formerly Deputy Minister of Health of the Province of Saskatchewan, Canada.

The fund is building these hospitals because it had no other alternative if it was to achieve its goal of good medical care for miners. The area in which these hospitals are being built produces about a third of the coal tonnage of the organized industry and contains about a third of the members of the UMW. It is an area strikingly deficient in medical resources—an area with insufficient hospital beds, inferior hospitals, insufficient physicians, a dearth of qualified specialists, and high infant and maternal mortality rates.

In this area, most of the existing hospitals are proprietary, the hospitals being owned by individual doctors or partnerships of doctors and being closed to other physicians. Inasmuch as these hospitals now derive the greater part of their revenues from the welfare fund and since payments to hospitals include an allowance for depreciation, the fund was in effect paying the capital costs of these hospitals.

The fund managers became convinced that the only way in which competent physicians could be attracted to the area was to make available to them adequate hospital facilities. The efforts of the fund to stimulate community action to improve existing hospital facilities failed because of the economic conditions of the area and the proprietary interests of the doctors who now own the hospitals.

In 1951, the fund arranged for its medical advisory committee, which advises the executive medical officer on problems and policies, to tour this area and visit some of the hospitals.[48]

The group was accompanied by Dr. George Lull, secretary and general manager of the American Medical Association. The committee found conditions medically to be unsatisfactory and agreed with the fund medical personnel that the fund should build its own hospitals in the area.

The trustees of the fund approved the program in 1951. Surveys of needs and existing medical resources in the area led to the decision to place the hospitals at their present locations. The hospitals have been planned on the general principle of regionalization, with the smaller hospitals being considered as ancillaries of the larger ones. All of the hospitals will have large outpatient facilities.

Three well-known hospital architectural firms were employed to design the hospitals. While the hospitals are different architecturally, all have certain standardized features, for example, standard plumbing and hardware fixtures, and exterior wall construction, ceiling heights, and bays, which permit economies in the mass purchase of materials. The cost of the hospitals when completed and equipped will be between $25,000 and $30,000 a bed.[49] In comparing these per bed costs with

[48] The committee at the time of the survey was composed of the following: (1) Dr. Robin C. Buerki, executive director, Henry Ford Hospital, Detroit, Mich.; (2) Dr. Dean A. Clark, general director, Massachusetts General Hospital, Boston, Mass.; (3) Dr. Harold S. Diehl, dean of the medical sciences, School of Medicine, University of Minnesota, Minneapolis, Minn.; (4) Dr. Carl N. Peterson, secretary, council on industrial health, American Medical Association, Chicago, Ill.; (5) Dr. Howard A. Rusk, director, Institute of Physical Medicine and Rehabilitation, New York City; (6) Dr. Walter E. Vest, private practitioner, Huntington, W. Va., editor, West Virginia State Medical Journal. Members of the committee serve without pay but receive a slight honorarium for attendance at meetings and are reimbursed for traveling expenses.

[49] The per bed cost will depend in part on what is considered to be the bed capacity; if bassinets for premature infants are counted as beds, the total number of beds in the hospitals will be 1,085; if not so counted, 1,038.

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those of other hospitals, it must be borne in mind that eight of the hospitals provide apartments for some of the hospital staff, that all of the hospitals have much more extensive outpatient facilities than the average hospital, and that several of the hospitals have nursing schools.

The hospitals will not serve fund beneficiaries exclusively. Beneficiaries will have preference but to the extent possible the hospitals will serve others in the community.

To some extent the 10 hospitals will be operated as a unit. There will be central supervision over the operation of all the hospitals. The fund has employed as clinical director, Dr. Aims C. McGuinness, former dean of the graduate school of the University of Pennsylvania Medical School, who will be responsible for the organization of the medical staffs in each hospital and for the medical standards.

There will be central accounting and purchasing for all 10 hospitals. There will be standardization of personnel practices as among all hospitals. Some of the larger hospitals will provide certain maintenance services for the smaller ones. The larger hospitals will also provide advisory and supervisory services as regards business procedures, personnel, nursing services and education and property management and general services.

It is planned that the hospitals will be opened to the local doctors, and that all doctors in the areas served may apply for medical staff membership and will be accepted to provide those services for which they are considered qualified. To this end, careful studies are being made of the physicians now in the area and the field of medicine in which they are qualified. Each hospital will have a nucleus of full-time salaried men—chiefs of the medical, surgical, pediatrics, and obstetrical services. Some of the larger hospitals will have full-time men in some of the other specialties. These key physicians will see patients only on referral and all of the doctors working in the hospital will be responsible to them.

The hospitals will be paid for their services to fund beneficiaries on the same basis as other hospitals, that is, on the basis of their all inclusive per diem costs. A good many of the miners in the area have checkoff arrangements for home and office medical care and it is possible that these moneys can be levied upon to pay for the outpatient care of some miners.

There is little doubt that the hospitals will have a great impact on the level of medical care in the area served and that they should serve greatly to improve the existing levels of care. With their extensive outpatient services for pay patients and their provision for salaried medical personnel, these hospitals represent adventurous experiments in the organized provision of medical care, the operation of which will be watched with interest by people the country over.

(2) *Rehabilitation program*

A significant part of the medical program and one of which the fund has much reason to be proud is the rehabilitation program. This was one of the earliest activities of the fund and it has continued as an essential part of the medical program.

Mining is an exceedingly hazardous industry and every year thousands of miners are seriously injured in mining accidents. Probably the worst of these casualties are the paraplegic cases. Formerly, it was considered that the men so injured could not be returned to any

type of activity. They were given such immediate medical care as was required and then sent home to live out their lives in helplessness, a burden to themselves and to others.

The first medical program of the fund was seeking out these cases—ultimately there were found to be several hundred of them—and arranging for their transportation to various rehabilitation centers. Many of the cases were sent to the Kaiser-Kabot Institute in California; others were sent to the Kessler Institute of Rehabilitation in East Orange, N. J.; and others to the Institute of Physical Medicine and Rehabilitation in New York City. A fair share were rehabilitated to the extent that they learned a trade and became employable.

Dr. Howard Rusk of the Institute of Physical Medicine and Rehabilitation of New York City has given the following account of the rehabilitation of these cases:

> These were the toughest cases that anybody ever saw, bar none. You always like to tell about your worst cases, but there were many as bad as this one: This man was 40 years old and his back was broken 20 years before. How he survived that length of time I don't know. When he was found * * * he * * * had not seen a doctor in 3½ years. There was not even a wagon road to his house and he was carried down in a sling between two bed poles by friends. The man had 11 bed sores from the size of a plate to the size of a dollar; stones in both kidneys and his bladder, and his lower extremities were almost up under his chin. You might ask, is it worth fooling with a person like that? He thought it was. He wanted to live. And we felt we had an obligation. It took 26 surgical precedures and 13 months before we could even start to train this individual. * * * We trained that man to walk, swing through a gain on crutches in 90 days, and in control of automatic bladder and automatic bowel. And during the last 3 months of his stay in the institute he ran for sheriff in his county * * * and he has been sheriff there for more than 3 years.

Beginning with those most severe cases, the fund program went on to rehabilitation of other less extreme cases. All told, over the period of the fund's operation, 12,645 miners have completed necessary medical and physical rehabilitation. Many of these men, through cooperative arrangements with rehabilitation agencies and other groups have also received vocational rehabilitation. Approximately a third of those who have received vocational rehabilitation are now self-supporting.

The rehabilitation program which now covers both miners and their dependents is on a current basis; the backlog of cases has been taken care of. Each area medical office has a staff member responsible for the rehabilitation program. Physicians bring their cases requiring rehabilitation to this person's attention. He checks all medical bills for possible rehabilitation cases. He sees that these cases come to a screening clinic which determines the type of care that is needed and the facilities than can provide it. The rehabilitation staff member consults with the patient as to the agencies which can help him, if here is a placement problem arranges for specialized training at trade schools, and places the patient in contact with social-welfare agencies that can help him and the family.

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The staff sees to it that other resources available to the person, such as workmen's compensation, the Veterans' Administration services, and any services available from the State and local agencies, are utilized. The fund's policy in this field is to conserve its own funds by tapping the resources of public agencies to the maximum. In due course the person is put in touch with the State vocation rehabilitation agency and such services as are available from this agency are received.

The rehabilitation program of the fund has played a significant role in stimulating State and local vocational rehabilitation agencies to improve and extend their services. In the fiscal year ending June 1955, 455 severely handicapped or totally and permanently disabled miners and eligible dependents of such miners were provided hospital and medical care through fund payments of $1,283,421.

(*3*) *Finances of medical program*

In the fiscal year ending June 30, 1955, the fund spent for hospital and medical care $42,773,658. Of this amount, $24,539,397 was for hospital care, $13,058,335 for physicians' services, $3,050,853 for outpatient and specialist services, and $2,125,073 for drugs and miscellaneous supplies and services. The fund estimates that approximately 1 million persons were eligible for medical care on the average during the year. Hence, the overall cost amounted to approximately $42.77 per capita of the population served.

The above costs may be compared with an average cost in 1954 of $30.31 per person eligible for service under the Blue Cross and Blue Shield programs for the country as a whole. In making this comparison it should be borne in mind that the UMW program provides all needed hospitalization, without exception or limitation, whereas Blue Cross has various limitations; that the program pays the cost of physician service in full, whereas Blue Shield subscribers frequently have to pay extra charges over and above the allowances provided; that the UMW program covers the cost of hospital outpatient care and specialist service outside of the hospital, whereas Blue Cross-Blue Shield provides outpatient care only in accident cases and generally provides only surgical and inhospital medical service. The UMW program provides certain drugs outside of the hospital; Blue Shield does not. Another factor is that 105,000 of the UMW population eligible for care are pensioners and their dependents, and that the cost of providing medical and hospital care to the aged is high. On the other hand, the fund's average per diem cost of hospital care—$15.56—is considerably below the average per diem cost of general hospital care for the country as a whole—$21.76—as reported by all short-term general hospitals to the American Hospital Association in 1954.[50]

The fund provides no breakdown of administrative expense for each progam. From data made available by the fund, the staff has calculated that the total administrative expenses allocable to the medical program in the last fiscal year amounted to approximately $2,330,000, or 5.2 percent of the total cost of the program. This may be compared with an administrative expense ratio (administrative expense as a percent of subscription income or premiums written) in 1954 of 6.8 percent of all Blue Cross plans, 11.2 percent for all Blue

[50] The $21.76 represents total expense per patient-day. It includes expenses other than those for inpatient care, such as research, education, outpatient care, etc. Hence, it is not a fully comparable figure.

Shield plans, and 12.6 percent [51] for the group accident and health business of all insurance companies.

The fund compiles a considerable volume of statistical data on the utilization of services by its beneficiaries and on costs of service. Almost none of this is made public because of a belief on the part of the fund personnel that publication of such data (showing for example the variations in hospital admission rates or payments to physicians for specified surgical operations in the various areas) would impede the fund's efforts to reduce hospital utilization or lead physicians whose charges are below the average to increase their charges.

(4) *Some comments on the medical program*

In the course of their study of this program, the staff interviewed two physicians who are members of the advisory medical committee of the fund—Dr. Howard A. Rusk, director of the Institute of Physical Rehabilitation, New York City, and Dr. Harold Diehl, dean of the medical sciences of the school of medicine of the University of Minnesota. Dr. William Shepherd, vice president, Metropolitan Life Insurance Co., who had been consulted by the fund on numerous occasions and is well informed about the program was also present. All three of these men are members of the Health Resources Advisory Council of the United States Office of Defense Mobilization. These experts thought that the program was excellent and outstanding in every respect. Dr. Rusk said that there were three things he found admirable in the medical program—it had the courage to make any payments for medical care of its beneficiaries that would contribute to their health and rehabilitation; it had the courage to stand up when it felt the fund was being exploited by dishonest physicians, and the high caliber of men that it had attracted to the program. The other two men associated themselves with these remarks.

7. COMMENTS BY EMPLOYER REPRESENTATIVES ON THE PROGRAM

It was not possible for the staff to interview the coal operator's fund trustee, Mr. Charles A. Owen. However, his views were briefly ascertained by telephone. He said that there was no question as to the integrity and honesty of the fund. He thought the program was very well run. He said that in recent years all trustee resolutions have been unanimous and that his views on the program would echo those of Mr. Lewis and Miss Roche.

Mr. Owen was invited to testify at the hearings but was unable to do so. He did, however, send a letter which appears in the record of the hearings, and which affirms the above expressed views. He wrote, in part:

> There is absolutely no question in my mind as to the integrity of the fund's administration, or the ability, honesty, and devotion of the principal administrative officers and employees of the organization * * *
>
> The producers have been kept currently informed of the fund's operations, with the result today that most of our more responsible people not only accept the fund but express themselves as satisfied with its performance. The trust's achieve-

[51] The latter figure is inclusive of taxes approximating 2 percent on premiums.

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ment of orderly retirement of over 60,000 miners is a noteworthy one and the exceptional hospital and medical care afforded the miners and their dependents is commented on favorably both within and outside the coal industry.[52]

Mr. Harry M. Moses, president of the Bituminous Coal Operators Association, which represents 65 percent of the tonnage of the organized part of the industry, told the staff that in his opinion the fund has been managed with absolute honesty and great competence. He did not see how the program could have been better managed. He has high regard for those who administer the program. He thought the fund is meticulous in granting or witholding pensions in accordance with the eligibility conditions. He said that in the early days of the fund, it had been less meticulous in this regard, and sometimes shaded requirements a bit in order to make pensions available to people who did not meet the eligibility conditions 100 percent. However, procedures have been tightened up, and there can be no present complaint in this regard.

The only complaints of the industry with the program are its costs. He thought that the operators felt that it would be better if the miners had some equity in the fund and the pension program was funded in some way; however, this might be very costly.

Mr. Moses gave a very brief statement at the hearings. Among other things he stated:

> Following acceptance of the principle of the fund, the industry has taken considerable interest in making it work. From time to time, through the industry trustee, Mr. Owen, the industry has made and will continue to make suggestions for its improvement. We hope some day to establish confidence in this area so that some of these may be accepted and all receive consideration.
>
> Since all must have the greatest respect for the low administration cost of the fund, and the meticulous honesty and integrity of the present trustees, most of the industry's suggestions have dealt with long-range programs to insure a balance between present and future costs limited by the economics of a highly competitive industry.[53]

Mr. Joseph E. Moody, president of the Southern Coal Producers Association, which represents about 25 percent of the tonnage of the industry, when interviewed by the staff said that his association was not in favor of the fund. He felt that while the industry should provide complete care and compensation for miners injured in work accidents, there was no legitimate reason why it should be called upon to provide pensions for miners, or general medical care for miners and their families.

He felt that the union was using the welfare fund to discipline union members and to maintain its membership. He said that the applications for hospitalization benefits and pensions must contain a certification that the applicant is a paid-up union member. He thought this was tantamount to requiring union membership as a condition of eligibility and is illegal.

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[52] Hearings, pt. 3, p. 1049.
[53] Ibid., p. 1056.

He thought that the 40-cent royalty was a burden too great for the industry to bear, that it had helped to raise the price of coal, and had lost markets for the industry.

He thought that to some extent hospitals and doctors were taking advantage of the fund. He believed that hospitals in the area in which the fund is building the 10 hospitals are adequate and that the main reason the fund is building those hospitals is that the area is one in which the union is insecure, and that the union is building "union temples" in these areas to strengthen its hold. He felt that the pension program should be funded so that miners would have some assurance of pensions in the future.

Mr. Moody was invited to testify at the hearings, but was unable to attend, and later declined to avail himself of the privilege of filing a statement.

8. COMPLAINTS BY MINERS AND SURVIVORS OF MINERS

As a consequence of the publicity attending the hearings on the United Mine Workers welfare and retirement fund, the subcommittee or its chairman received a number of letters—approximately 35 in all—from miners or widows or survivors of deceased miners. Close to half of these letters were from widows or survivors who had formerly received continuing maintenance-aid cash benefits, but whose benefits ceased when the fund discontinued this benefit program as of April 1, 1954. Another large group were from miners past 60 whose application for a pension had been denied. In some of these cases the miners would have been eligible for a benefit had they applied prior to the 1953 change in eligibility conditions, which then required that the 20 years of service in the industry must have been within the 30 years preceding application for a pension. Several were from miners who had had long years of service in the industry, but who had been out of the industry for a period of years in the middle forties, including the year 1946, when the fund was established, who have since returned to the industry and have been working in it for the immediate past several years, and who now find they are ineligible for a pension.

The majority of these letters reflect great bitterness on the part of the writers and a feeling that they had been unjustifiably denied or deprived of a benefit which they thought was justly due them. A good many displayed great bitterness toward Mr. Lewis. Many of the letters ask that the Government "do something" to right the wrong the writers felt had been done them.

Such letters must be discounted to some extent. Under any benefit or insurance program there must be eligibility conditions, and some of those who fail by a small margin in meeting these conditions will be bitter and aggrieved. Nevertheless, it was believed that the report on this program should call attention to the receipt of these letters and the existence of a certain number of miners or dependents of miners who feel that they have not been dealt with justly.

The letters certainly indicate that in an established program any reduction of benefit or any tightening of eligibility conditions which deprives persons of benefits that they have been receiving or had counted on receiving, is to be avoided wherever possible. The letters also seem to indicate that the existing union machinery through which fund policy decisions are communicated to mine workers, and whereby

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miners through their local unions or the conventions of the national union, are able to make known their wishes and desires as regard fund policies, is possibly defective. Apparently, a considerable number of miners feel that the fund is managed entirely by Mr. Lewis, and that the miners themselves have very little to say with regard to it.

9. CONCLUSIONS: APPRAISAL OF PROGRAM

This program is honestly and well administered; in fact, the medical program is outstanding.

The provision of pensions to retired miners, of death benefits to survivors, and of comprehensive hospital and in-hospital medical care to all miners and their families, is of incalculable benefit to the beneficiaries. The fund provides these benefits efficiently and at a low administrative cost—less than 3 percent of fund contributions. The end result could probably not be achieved as well or at lower cost by any other set of arrangements.

Insofar as can be judged within the time available for the survey, the pension program is carefully administered with pensions given to those who meet the eligibility requirements established by the trustees and withheld from those who do not.

The medical program, taken all in all, can be characterized as no less than excellent. The program provides to its beneficiaries all needed care in serious illness, virtually without exception or limitations, and gives them complete protection from the risk of heavy medical expense. Much effort is being made to assure that the care is of a high level of quality.

The medical program is administered by an outstanding group of individuals. Its administrative cost is very reasonable. The decision of the fund to build a chain of hospitals to provide service to its beneficiaries appears to have been well taken, and the hospitals should do much to raise the level of care available to miners in these areas. The building of these hospitals is an indication of the imaginativeness, boldness and vigor with which the medical program has been conceived and operated.

It is believed that the medical program would benefit if it made public data on its hospital utilization rates and costs, incidence of surgical operations, and average payments for selected operations and services. No appraisal by outsiders of the operation of a self-insured medical program is possible without such data. However, these defects—if indeed they are defects—and they are matters upon which wide differences of opinion are possible—are of small consequence in the total picture which is that of a farflung, pioneering, well-run program of immense value to its beneficiaries.

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VII. SUMMARIES OF SPECIFIC INVESTIGATIONS

A. INSURANCE PLAN OF UAW-AFL AMALGAMATED LOCAL 286

Since the preparation of this report, the subcommittee has received notice that as of April 1, 1956, this local is no longer a part of the UAW-AFL, and Angelo Inciso is no longer a member of that international.

1. THE UNION

Amalgamated Local 286, United Automobile Workers of America, A. F. of L., located at 3909 West North Avenue, Chicago, Ill., is an industrial union; it organizes all types of shops, not confining itself to the automobile or automobile accessories field. It has about 5,000 members, and has bargaining agreements with approximately 36 companies in the Chicago area. Its international headquarters is located at 8670 Wilshire Boulevard, Beverly Hills, Calif.

Officers of local 286, as of October 1955, were:

Angelo Inciso, president.
Peter Lepri, vice president.
Frank Jur, recording secretary.
Anthony Doria, financial secretary.
Peter Lentine, sergeant at arms.
Henry A. Holicky, guide.
Sharon Herring, trustee.
John Benz, trustee.
James Samsela, trustee.

Terms of the aforementioned officers reportedly expired in January 1956. It was determined, however, that Anthony Doria, financial secretary, resigned from that position in November 1955.

According to testimony received, local 286 holds its meetings by shop membership rather than by general membership; the shop meetings are reportedly held three times a year. In addition, each shop elects a certain number of committeemen and stewards; these committeemen and stewards elect the officers of the local and reportedly meet three times a year. Union officers endeavor to attend the meetings of all shops which are held at union headquarters.

It is the subcommittee's understanding that this method of holding membership meetings is common to an amalgamated local union, and perhaps there are substantial reasons why it is good operating procedure. The net result, however, is that the general membership never gets together and the union officials need only control disjointed groups. The subcommittee feels that the conditions which have been found in the insurance program of local 286 have been facilitated, if not made possible, by the fact that the aforementioned procedure leads to an uninformed and unorganized membership.

The amount of membership dues is a basic question. As will be pointed out later in this report, the president, Angelo Inciso, insists that dues are $9.15 per member per month. Nevertheless, all union reports and the majority of union records show union dues at $3 per month per member, and it is a percentage of the smaller amount that is sent to the international union as per capita tax.

Financial affairs within the local have been controlled principally by Inciso. The union's fragmentary financial records were maintained by Anthony Doria, financial secretary. Doria, who is also an international officer of the United Automobile Workers of America, A. F. of L., during the majority of the period concerned, 1951–55, has operated from Milwaukee, Wis., and Los Angeles, Calif.

At the time of the staff's inquiry into this program, Inciso was receiving a gross salary of $210 a week plus expenses, and Doria, a gross salary of $150 a week. Two of the business agents for local 286 were paid salaries and expenses by the international, and a third agent was paid his salary by the international and $35 a week expenses by the local. Subsequent to the institution of the inquiry, and following an international convention in Cleveland in November 1955, Inciso's gross salary was reduced to $100 a week, and Doria resigned his position as financial secretary of the local.

2. INSURANCE PROGRAM WITHIN LOCAL 286

Following negotiations and agreements with various companies with which it had bargaining agreements, local 286 secured a group insurance policy from Continental Assurance Co., Chicago, Ill., effective August 1, 1951. This policy continued in effect until November 1, 1954, when it was canceled by the union. Following this cancellation, local 286 arranged by means described hereinafter to obtain similar benefits from the American Continental Insurance Co., also located in Chicago, Ill.

Premium rates paid the Continental Assurance Co. during the time it held this policy were $5.15 per month per employee and $3.89 per month for dependent coverage. Subsequently, in April 1955, under American Continental, the rates for dependents were increased from $3.89 to $5.20 per month; at the same time there was an increase in benefits for dependents. These rates of $5.15 and $5.20, respectively (the actual premium on the risk) were still in effect as of October 1955.

Although the premium rates paid the insurance companies were those set forth above, during 1954 local 286 began arranging with employers for premium rates of $6.15 per month per employee. As of October 1955, all companies whose employees were covered under the group policy issued to local 286 were paying the $6.15 rate.

The schedule of benefits under the program, applicable to members and their dependents, is as follows:

	Life insurance	Weekly accident and sickness benefit	Daily hospital room and board benefit	Maximum hospital service benefit	Maximum surgical benefit	Maternity benefit	Medical expense benefit	Diagnostic X-ray and laboratory benefit
Members	$1,500	$30	$10	$800	$200	$200	$225	$25
Dependents	0	0	10	800	200	200	225	25

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In April 1955, when the rates for dependent coverage were increased, the benefits to be derived were increased for daily hospital room and board, maximum hospital service and maternity care, and the coverage was extended to include medical expenses and outpatient service for X-ray and laboratory facilities.

On October 5, 1955, Angelo Inciso advised the subcommittee's chief counsel that funds for the operation of this insurance program were secured through collective bargaining with the employers for a specific cents-per-hour payment; that the employer increased the employees' wages by this amount, and that the employee union member paid directly to the union as dues an amount which included both actual dues and group insurance coverage. He stated further that each month the employee member paid $9.15 dues, $6.15 of which was put into a fund to purchase group insurance; that if the member wished dependent benefits, he paid an additional $5.20 per month.

All payments toward premium now go to the union. From the outset of the program, up to about July 1953, some of the companies directed premium payments to the then carrier, Continental Assurance. At that time, however, Inciso caused all companies to desist in this arrangement and, as of the time of the staff's examination of the plan in October 1955, all premium payments were going to local 286.

At the outset, this plan was administered by Continental Assurance Co. Toward the end of the first policy year, in May 1952, it was arranged that effective June 1, 1952, the administration would be handled in the offices of local 286, and the carrier agreed to reimburse the union by an advance premium discount of 2 percent. Shortly thereafter, the union asked that this premium discount be increased to 4 percent, but the company refused. Despite this refusal the union reportedly held up premium for August 1952, hoping that the requested 4 percent discount would be allowed. Finally the union was informed by the agent of record to take the 4 percent discount. Following further discussions between the union and the insurance company, the company agreed to allow such deduction on the basis that 2 percent would be allowed for administration and 2 percent would be an advance against the rate credit normally paid to the union at the end of each policy year. The union began taking the 4 percent deduction on August 1, 1952, and continued doing so until the cancellation of the contract with Continental Assurance Co. on November 1, 1954.

Under self-administration the union processed and paid all claims by draft drawn on the insurance company.

Through the aforementioned discount, Continental Assurance Co. allowed the union to retain the following sums, applicable to the stated periods:

June through December 1952	$3,298.06
January through December 1953	9,516.96
January through October 1954	5,498.01
Total	18,313.03

During the time that the Continental Assurance Co. was carrier in the case, it paid the union the following experience rate credits:

For policy year Aug. 1, 1951 to July 31, 1952	$13,363.63
For policy year Aug. 1, 1952 to July 31, 1953	9,091.86
For policy year Aug. 1, 1953 to July 31, 1954	6,991.08
Total	29,446.27
Adjustment	4,552.44
Total	33,998.71

Following cancellation of the insurance contract with Continental, there was considerable controversy between the union and the company relative to premium allegedly due the company for the month of September 1954, and to the company's calculation of the experience rate credit for the policy year ended July 31, 1953. This controversy was not resolved until November 1955, at which time the union agreed to pay the premium due and the company recalculated its rate credit for the policy year in question and gave the union credit for an additional $4,552.44, as shown above.

After cancellation of its contract with Continental Assurance, the union arranged with American Continental Insurance Co. for a new group policy. As stated above, premium rates and benefits for employees and dependents were the same with this company as they had been with Continental Assurance. The policy was in effect with American Continental Insurance Co. at the time of the staff's examination of the program in October 1955. The union has continued to self-administer the program and to receive the 4 percent premium discount. For the period November 1, 1954, through September 30, 1955, the discount was in the amount of $10,096.54.

The first policy year under American Continental had not been completed at the time of the subcommittee's investigation; rate credits had not been determined, and no information was available as to the dividend, if any, which would be paid by the company.

William A. Hollister, of Libertyville, Ill., and D. A. Briscoe, of Milwaukee, Wis., were the brokers for the policy while the case was with Continental Assurance. Later, these same men began doing business as All Risk Insurance Agency, of Milwaukee, Wis. Individually, and then as the All Risk Insurance Agency, these men received a flat 3 percent commission on the business during the time it was with Continental Assurance Co. Commissions paid for the period from August 1, 1951, to November 1, 1954, totaled $17,912.01. This figure included an estimated commission for the period in 1954 when there was litigation between the company and the union.

Following transfer of the business to American Continental, Salvatore Oddo became the broker in the case. He has been paid a flat 2 percent commission and since January 1955, has received the sum of $4,482.73, applicable to the period November 1, 1954, through October 1955.

3. DETAILED FINDINGS

Preliminary inquiries concerning this program revealed a number of facets of its operations which were not clear and which were subject to serious question generally, and on four points specifically:

(*a*) The basis on which funds for the operation of the program are obtained;

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(*b*) The commingling within the union of funds secured as dues, initiation fees, insurance payments, etc.;

(*c*) The disposition by a union officer of these commingled funds; and

(*d*) American Continental Insurance Co. practices.

Preliminary to discussing our findings relative to these four points, the subcommittee is compelled to relate that investigation of these problems was carried on under unfavorable conditions. Inasmuch as the insurance program was administered almost wholly by local 286, an examination of its books and records was necessary. However, the subcommittee met with complete opposition when it sought to have these books and records made available for examination. Three approaches to and requests of Inciso were belligerently resisted by him. On November 19, 1955, a subpena duces tecum was issued to Angelo Inciso calling for the production on November 28, 1955, of the books and records relative to the insurance program before the subcommittee. It was determined that no formal books and records were kept by local 286 with respect to this program, nor with respect to its own union operation, but that any such data was maintained by the financial secretary, Anthony Doria, in the offices of the international union at Beverly Hills, Calif. An appropriate subpena duces tecum was therefore addressed to the international, calling for the production of local 286's records. Doria also was subpenaed. None of the records were produced on November 28; Inciso did not respond to the subpena; Doria appeared but claimed lack of understanding as to the records desired or lack of time to secure any records.

The excuses submitted for failure to appear and to produce proper records by Inciso, and for failure to produce proper records by Doria, are without substance. They are contained in the printed hearings [1] and do not warrant being repeated here. It is nevertheless the feeling of the subcommittee that these officials deliberately tried to evade the production of such records. The conditions revealed by the records, when they were finally produced, are, it is believed, ample explanation for the reluctance and evasion of these union officials. It should be pointed out that the investigation of these conditions within local 286 did not reveal that they were known to international officers other than Doria. Further, the inquiries made and information disclosed pertained only to local 286 and did not cover any other locals in this international.

(A) FUNDS FOR OPERATION OF THE PROGRAM

As previously reported herein, Inciso stated that funds for this program originate with the employees who have received wage increases from the employer sufficient to cover the cost of their insurance coverage.

Due to limitation in time and manpower, the subcommittee staff was not able to contact all of the employers having bargaining contracts with local 286 and whose employees were participants in the insurance plan. However, a sufficient number of these employers were contacted to produce convincing evidence that the insurance plan

[1] Pt. 3, pp. 1005–1006, 1009–1015, 1076–1080, 1368–1369, 1510–1512, 1590–1592.

for members of local 286 did not operate entirely in the manner described by Inciso.

According to hearing testimony, in the majority of the firms contacted, the cost of the insurance program was being borne solely by the company, and had not been provided through the medium of giving the employees wage increases to offset the cost, as reported by Inciso. Again, in only 2 of the 12 companies contacted was the matter of insurance a part of the bargaining agreement. In the remaining instances, the entire matter, whether the costs were being met by the company or the employees, was being handled on the basis of oral arrangements between Inciso and the management.

The situation with respect to the insurance plan of local 286, as found in two of the concerns contacted, the Delta Star division of the H. K. Porter Co. and the Dixie Cup Co., both of Chicago, Ill., is believed to be indicative of the varied manner in which the plan operates.

Delta Star.—Under wage-rate provisions of a bargaining agreement, signed on December 30, 1952, and retroactively effective August 27, 1952, Delta Star agreed that "all of the above [wage] rates include 3 cents per hour to cover group life and hospitalization insurance premiums which are paid for by the company. The cost of this insurance is $5.15 per month for each employee in the bargaining unit. Insurance premiums are to be deducted as a portion of union dues on the first pay period of each month and rebated to the union." Under the above provision, the company deducted monthly the $5.15 insurance cost from the employees' wages and forwarded the money to the union.

During the course of bargaining negotiations with Inciso in September 1954, Delta Star agreed to provide each employee in the bargaining unit with a 1-cent per hour wage increase to cover the increase in the cost of insurance from $5.15 to $6.15 per member per month. In confirmation of this increased cost, Inciso wrote the company under date of September 21, 1954, advising that beginning October 1, 1954, union dues would be $9.15 per month per member. A bargaining agreement was signed September 30, 1954, effective September 27, 1954, and the wage scale agreed to therein included the aforementioned increase of 1-cent per hour. However, this agreement, unlike that of August 1952, made no mention of insurance nor did it single out the 1-cent increase and the reasons therefor.

In this same agreement of September 1954 the company also agreed "to pay the premiums on the hospitalization insurance on dependents for members in this bargaining unit to give the same coverage as now in effect. All members in the bargaining unit eligible for this insurance will be covered." Prior to this agreement, the employees paid the cost of insurance for their dependents. This provision was made, company officials stated, because those employees not having dependents were fully covered at company expense, while employees with dependents were being more or less taxed because they did have dependents.

Delta Star had authorizations from their employees to deduct both union dues and insurance premiums from their wages, and has always paid these moneys to the union by checks drawn to the union. They are following the pattern described by Inciso.

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Dixie Cup Co.—This company first agreed to participate in the plan in January 1953. At that time it agreed, effective January 1, 1953, to pay the complete cost of the insurance, $5.15 per month per employee, and to make payroll deductions of $3.89 per month to cover dependent premiums for all employees authorizing the company to make such deductions. At that time the company followed a procedure of drawing one check for both premiums payable to the Continental Assurance Co. and forwarding it to local 286. They continued doing so until some time in August 1953 when, at the request of the union, incorporated in a letter of June 13, 1953, they proceeded to make such checks payable to local 286.

Under date of August 27, 1954, the union advised the company: "The present health and accident insurance is to be increased to $6.15 per month per member." [2] Following this letter and preliminary to bargaining conversations, the union submitted to the company a number of proposals including one to delete from the bargaining contract a section which provided as follows:

> A group insurance program prepared by the Continental Assurance Co. of Chicago will be provided for all employees. The company will pay the entire cost of this insurance program which will include life insurance, daily hospital benefits, hospital and surgical fees, weekly accident and sickness benefits, maternity benefits, medical expense benefits, diagnostic X-ray and laboratory benefits. * * *

The request of the union was not granted, and the aforementioned section was included in a bargaining contract dated November 9, 1954. Soon after the contract was signed, the company was informed by Inciso that the insurance carrier was being changed to American Continental Insurance Co. It was pointed out to him that under the bargaining contract the carrier was to be Continental Assurance and that any change would therefore be in violation of the contract. Regardless of this factor, as is known, the change was made and Dixie Cup Co. did nothing about it. According to testimony at the subcommittee hearings, as of the time of the interview with company officials in late 1955, Dixie Cup Co. was still paying premiums for their employees and forwarding this money to the union.

This situation of the employer bearing the cost of insurance for his employees was also found in the Chicago Pottery Co., Eagle Grinding Co., Illinois Coil Spring Co., National Video Corp., Navidico Corp., Precision Paper Tube Co., and Titan Abrasives Co. In some of the cases the cost of the insurance was added to the employees' wages and then immediately deducted, but this procedure was a mere subterfuge as the basic wage scale was not increased and overtime was computed on wages without the insurance cost included.

In the case of Payson Manufacturing Co., it was determined that $5.15 of the premium was being deducted from the employees' wages, and the additional $1 per member per month was being paid by the company. At the Chicago Nipple Co., and Duro Metal Products Co., as in the case of Delta Star, the employees have been granted a wage increase to cover insurance costs; the premium is deducted from their wages, and is forwarded to the union. In the case of the

[2] Ibid., pp. 1515–1516.

R. G. Haskins Co., the concern granted employees a wage increase to cover the insurance costs; however, it does not deduct this money from wages. Rather, the employee pays his $3 dues and $6.15 insurance premium to a union steward who visits the plant and, in turn, the union forwards $5.15 of the sum they receive to American Continental.

The various manners in which this plan operates and is handled in the companies is obvious from the foregoing. Of paramaunt interest, of course, is the fact that in the majority of the companies contacted, the company is paying the cost of the insurance directly to the union. The situation in the twenty-odd companies not visited is not known. However, it appears logical to assume that a number of other companies bear the cost of this insurance directly and have not raised wages in an amount equivalent to the premium. Regardless of the situation within these other companies, however, it is known that the plan is not operated in all instances as stated by Inciso, and it is probable that the companies who pay these insurance charges by check to the union instead of to the insurance carrier are violating section 302 of the Taft-Hartley Act.

Inciso, when originally interviewed and throughout his subsequent testimony at the hearings, contended that all of the money being paid by employers for, or on behalf of, their employees, is dues. He persisted in this argument even while admitting that some employers were possibly paying for their employees, by stating:

> I explained it to them—that we are negotiating a raise in dues, I mean in wages, and that there was no talk of them having anything to do with any insurance. As far as we are concerned, it is dues as such. How they broke it down is their business.
>
> I have seen it broken down in various different ways. I have asked these managements how come and they have various different explanations for it, but as far as I am concerned, I negotiated all of these agreements. They were negotiated in wages as such. I heard various arguments, such as some management would say, "Well, what is the difference? I agree to give it to you in the wages, but if I have to pay in wages I have to pay overtime. I don't want to pay overtime on it."
>
> I told them that is their business, but as far as I am concerned it is dues as such and we would tell the membership that our dues were being raised to $9.15.[3]

One of the deficiencies of this argument is that the arrangements which Inciso claims to have made are not part of the bargaining agreement; at least it was specifically included in the bargaining agreement in only 2 of the 12 companies checked. If he was sincere in desiring this plan to operate in the manner he claims it does, it appears that he has not used the most effective instrument to achieve just that—his collective-bargaining agreement.

Further, as previously pointed out, union reports and the majority of union records show union dues as $3 per month per member, and it is a percentage of that amount which is sent to the international union as per capita tax. If the dues were $9.15 as Inciso alleges, then it

[3] Ibid., p. 1506.

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would seemingly follow that the international should get a percentage of that amount and not of $3. Again, if all of this money were dues then there would be no need of the union differentiating on its records between dues and insurance—yet it does, on the receipt vouchers, on what records that were kept, and on the records maintained by Doria. For example, in its financial report, included with form 44 R 700 filed with the Department of Labor for the year ending December 31, 1954, local 286 showed dues of $134,801 as a receipt item, and net welfare insurance income of $203,842.94, less net welfare insurance premium paid of $169,957.28, as a separate item. The files of that Department further showed that insurance income was first mentioned in the reports of this local for the year ending December 31, 1951, and it was shown as a receipt item, but distinct from dues, under a head of group insurance income.

Another detail of Inciso's argument open to question is that the membership were informed of their dues being raised to $9.15. In referring to information given to committeemen and stewards at meetings, Inciso testified that he told his members though the union was getting $6.15, it was only sending the insurance company $5.15. He testified that if he sent the insurance company the other $1 per member per month the carrier would keep 14 percent of it. He also testified that Continental Assurance had informed him their premium rate was too close; that it could be dangerous, "* * * so we had explained that to various shops, as I would get around to them." He alleged, in effect, that every shop had agreed to a raise in dues. He continued, "*This is not all insurance money. As far as we are concerned, it is part dues.* We do break it down to show what it is for." [4] [Italics supplied.]

Whether Inciso realized it or not, by this statement he pinpointed the basis of the subcommittee's interest in this plan—some of the money is "insurance money" and, therefore, it must be handled in accordance with existing law and contrary to the manner in which it is being handled. His contention has been throughout that all of the money was "dues" and it is difficult to understand his explanation.

The subcommittee staff examined minutes of all meetings held at shops whose employees are participating in this insurance plan; i. e., all minutes that were provided by Inciso. There is no discussion therein of the raise from $5.15 to $6.15 and Inciso admitted the absence of such information in these minutes. He added, "but I am amazed because we do have the minutes and I, myself, am in charge of it. There is nothing to hide as far as the minutes are concerned. I am just amazed that they are not here." [5] There were allegations by Inciso that the minutes in question were in existence, were unaccountably missing from the material he provided, and that he would provide these upon his return to Chicago. He has not to date furnished any additional data on this question.

With respect to a possible violation of the Taft-Hartley provisions, the testimony of Alfred Bitzer of the Illinois Coil Spring Co. before the subcommittee on November 28, 1955, is of considerable interest. This company has been contributing to the group insurance plan of local 286 since its inception in August 1951. The company pays the

[4] Ibid., p. 1507.
[5] Idem.

premium on behalf of the union members in its employ. From August 1951, to July 1953, the checks in payment of this premium were made payable to Continental Assurance Co., the then carrier in this case.

In July 1953, Inciso insisted that these checks be made payable to the local instead of to the carrier, and under date of July 31, 1953, he returned the company's check for the July premium as it was made out to Continental Assurance; he advised that the check "should have been made out to the UAW-AFL Amalgamated Local No. 286." Mr. Bitzer began sending the premium check to the local as requested but, on the advice of counsel, accompanied each check with a letter to the effect that the check was being forwarded "as requested by Mr. Inciso"; that it was sent—

> pursuant to the agreement between us providing that the employees of this company who are members of your union * * * are to continue to be furnished with group insurance coverage to the same extent and under the same terms and conditions as presently set forth in (group policies) * * * issued by the Continental Assurance Co. insuring the members of your union * * * and is to be used by you solely for the purpose of paying the premiums attendant upon such insurance coverage.[6]

Counsel further informed Mr. Bitzer that he could not give him positive assurance that this method of handling the employees' insurance was not a violation of Taft-Hartley, but that if it was it would be only a technical violation not resulting in the imposition of any penalties.

Mr. Bitzer testified that, following this advice from counsel, he continued to send the premium checks to the local along with the aforementioned letter. On May 27, 1954, Inciso wrote Br. Bitzer, referring to a letter from Mr. Bitzer of the previous day (which followed the suggested letter of counsel), and stating that—

> there never has been any agreement with you and this union concerning insurance * * *. Also I do not believe that it is any of your business concerning the insurance.

Referring also to Bitzer's statement that the check was solely for the purpose of paying premiums, Inciso wrote—

> I take this as a personal insult for you to insinuate that the check that you sent to me covering the insurance was ever used for anything but its rightful purpose. I expect an apology by you * * * by return mail. If that cannot be done we are going to have to sit down and either cancel out the insurance or come to some understanding.[7]

The following day, May 28, Mr. Bitzer again wrote Inciso replying to the latter's communication of the 27th. Therein Bitzer pointed out that—

> * * * unless we have an agreement under which you are to provide insurance with the check which we give you monthly, then there is no basis for our giving you these checks, and if

[6] Ibid., pp. 975–976.
[7] Ibid., pp. 977–978.

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> we do give you these checks without such an agreement or you accept such checks without such an agreement, then we are both acting illegally under section 302 (c) of the act and under 302 (d) of the act, under which we are both subject to a fine of not more than $10,000 or imprisonment, or both.
>
> * * * In July 1953 you insisted that checks be made out to the union. Since that date these checks have been given you to purchase that insurance—and for that purpose only, just as we stated in our letter of May 26 and have stated in like letters attached to monthly checks forwarded to you since August 17, 1953, covering the July insurance payment.[8]

Since the aforedescribed interchange, the company has continued to send the premium check to the union; the letter, Bitzer said, "was sent a number of times," following the interchange. When questioned during public hearings as to why he had acceded to Inciso's request to change the payee of these checks, Mr. Bitzer testified that, "It was a matter of, I would say, maintaining labor-management peace and harmony." He denied being "definitely threatened with a strike," but added, "I will say that the threat of a strike is usually implied."[9] As in others of the companies checked, the matter of the contributions to this insurance plan was not covered in the current bargaining agreement between Illinois Coil Spring and the local.

Another employer testifying at the public hearings was Mr. Leo E. Jacobs of Titan Abrasives Co., of Chicago. This company had carried group life and hospitalization insurance for its employees for a number of years with Travelers Insurance Co. In 1952 or 1953 the company was visited by a representative of another carrier who, according to Mr. Jacobs, said "he would like to have us cancel with Travelers and take out our insurance through Massachusetts Mutual." Jacobs testified "I don't remember the exact circumstances, but it was made very plain to us that this was being done at the insistence of Mr. Inciso." So, according to Mr. Jacobs, the company took out insurance with this new company until some time in 1955. As of the latter time, Inciso informed Jacobs that—

> * * * he had a new insurance plan which he thought would be interesting to us—he could save us a little money. Most of the members of his union were under this same plan and thought we would be interested. I said we would be.[10]

Inciso, he continued, came up with a plan which provided benefits equal to, and perhaps a little better than, what Titan Abrasives were getting, and so, Jacobs said, the company changed over beginning in April 1955 to the carrier suggested by Inciso. This turned out to be American Continental Insurance Co.

The most recent collective bargaining agreement between this company and local 286 is dated in November 1954. It contains no provisions relative to this insurance because, Jacobs testified, "* * * our insurance had been in effect long before we entered into any agreement at all with the union * * *"[11] and they saw no reason to amend the collective bargaining agreement to cover it. Jacobs later testified

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[8] Ibid., p. 978.
[9] Ibid., p. 976.
[10] Ibid., p. 992.
[11] Ibid., p. 994.

that this contribution was a voluntary one by the company and the only change so far as they were concerned was that they had been switched around from one insurance company to another.

Just how reputable and substantial business firms could handle the matter of this insurance on the basis of oral rather than written agreements and, in many instances, handle their contributions contrary to existing law, is difficult to understand. This would especially seem true in view of the considerable publicity that has occurred in recent years with respect to abuses in welfare and pension funds. Some of the results of such indifference on the part of employers will be emphasized by the other information set forth with regard to this particular case.

(B) COMMINGLING OF FUNDS WITHIN THE UNION

As has been heretofore reported, during the greater part of the time that this program has been in existence, funds thereof have gone directly from employers to the union and from there to the insurance company. Evidence adduced at the hearing, from Inciso, Doria, and from Mrs. Frances Hall, bookkeeper for local 286, left no doubt that all moneys received by the union, regardless of their source and for what purposes they were received, were treated as general funds of the union.

Generally, this subcommittee has refrained from examining or concerning itself with books and records of unions. However, in this situation as in others, looked into earlier, it has been necessary to go into union records because of the known fact that moneys received for welfare programs have been commingled with strictly union funds received for dues, initiation fees, etc.

After being in contempt for refusing to appear and produce records of local 286 pursuant to subcommittee subpena returnable November 28, 1955, on December 3, 1955, Inciso produced eight cartons of records. Anthony Doria had produced certain other records on November 30, 1955, and had forwarded from Beverly Hills still additional records on January 3, 1956. It has been impossible, in the time available, to make a full and complete examination of these records. Their voluminous contents, the method in which they were maintained, and the condition in which they were received further precluded anything other than a preliminary examination.

As previously stated, local 286 did not maintain any formal books and records. Generally, their method of bookkeeping is as follows:

Each item was recorded on a numbered voucher; three copies of this voucher were made, two being retained in the office of 286 in Chicago, and the third being sent to Doria, first at Milwaukee, and subsequently at Beverly Hills, Calif. Numbered vouchers were also prepared and similarly distributed for each disbursement, until 1955 when duplicate copies of checks issued were used as vouchers. From the material produced, it is apparent that at times, during the years 1951 through 1955, attempts were made to keep income and disbursement ledgers. However, those made available for examination were incomplete and reflected numerous errors. Apparently no attempts were ever made to balance such ledgers against the vouchers to determine the accuracy of the entries. Further, no audits were ever made

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by either public or certified accountants. Bylaws of the international provide that trustees of local unions—

> * * * shall audit the records of the financial officers of the local union once each month, using duplicate forms provided by the international union, * * *

There was no evidence of the records ever being audited by the trustees of local 286.

The principal use to which these vouchers were put accountingwise was their employment by Doria in preparing a spread sheet each year on which he entered each item of income and disbursement according to its classification, e. g., dues, initiation fees, insurance, salaries, rent, light, telephone, insurance premiums paid, etc. From this spread sheet Doria would then make up the necessary statements for the Bureau of Internal Revenue, the Department of Labor, and for the international's and local's own use.

For a period of time the local had bank accounts in Chicago, Milwaukee, and Beverly Hills. Inciso has, since March 12, 1952, also had a special account, the activities of which have been closely intermingled with the aforementioned accounts of the local. In many instances money from employers, representing payments for dues, initiation fees, and insurance premiums for employees and dependents, would be deposited in the local's regular account in Chicago; from there the insurance premiums would go to Inciso's special account; from the latter to the local's account in Milwaukee; and from there to the insurance company.

The original signature card on file for the Chicago account at the Pioneer Trust & Savings Bank was dated May 4, 1949, and called for the signatures of both Angelo Inciso and Anthony Doria on all withdrawals; as of January 3, 1952, the authorized signatures were Albert DeVito and Peter Lentine, both being required. On January 16, 1953, the authorized signature was changed to Albert DeVito, president, and he remained the only authorized signer until December 29, 1953, when he was replaced by Inciso. The latter has continued to the present as the only person able to sign on the account. Both the Milwaukee and Beverly Hills accounts were subject to the signature of Anthony Doria only. Inciso's special account, of course, was subject only to his signature.

On January 13, 1953 the major part of the balance in the Chicago account, $50,331.73, was transferred to the Milwaukee account. The reason given for this transfer was that Incisco's life had been threatened and it was considered possible that he might be attacked and made to sign checks on the local's Chicago account; moving it to Milwaukee eliminated such possibility. From January 1953 until October 1954, the major part of the disbursements were from the Milwaukee account; however, the Chicago account continued to be used to some extent, as was Inciso's special account. As of October 27, 1954, the greater part of the Milwaukee balance, $4,000, was transferred back to Chicago. The Beverly Hills account was opened May 5, 1954, when Doria moved there in connection with the change of international headquarters of United Automobile Workers (AFL) from Milwaukee to Beverly Hills. This Beverly Hills account was extremely inactive and the major part of the balance therein was re-

turned to Chicago on October 14, 1954; the final balance went to Chicago on May 14, 1955.

The subcommittee staff, in the time available, was not able to analyze the records of local 286 to the point where it can be stated that the records are accurate from an auditing standpoint. The condition of the records as turned over to the staff is such that it would require weeks of work by a sizable team of auditors to bring order out of chaos. The subcommittee is therefore forced to present its remarks relative to the operation of the program within the union on the basis of the union's own figures. While we were reluctant to do this it was the only practical approach to a difficult situation. Moreover, the conditions uncovered on the basis of the local's records are so deplorable as to be considered outrageous, regardless of accounting practices.

As previously noted, the insurance program of local 286 began in August 1951 with Continental Assurance Co. as the carrier. As is usual the insurance company kept its records on a policy year basis. Thus, figures of Continental Assurance with respect to premiums paid, etc., are, within the time available, impossible to reconcile with the figures kept by the union on a calendar year basis. Thus, again the staff has been forced to use only union figures.

It appears that all moneys received by the union for dues and insurance have been deposited in its regular account; there was no attempt to segregate this insurance money. Likewise, dividends received during 1952, 1953, and 1954 were all put in with regular funds of the union.

During the period August 1 through December 31, 1951, the union paid the insurance carrier the exact amount received from the employers. It should be noted that at this stage of the program a number of the employers remitted direct to the insurance carrier and did not send their premiums to the union.

During the calendar year 1952, the union, for the most part, transmitted just what it received. Effective June 1, 1952, the union deducted from the premium forwarded Continental Assurance the self-administration fee of 2 percent and effective August 1952 deducted 4 percent. For the period from June 1 through December 31, 1952, the union withheld a total of $3,298.06 for administration.

During 1952, as previously reported, the carrier paid to the union a dividend on the first policy year ending July 31, 1952, of $13,363.63.

During 1953 the union withheld $9,516.96 for a self-administration fee, and they received a dividend applicable to the policy year August 1, 1952, to July 31, 1953, of $9,091.96.

Beginning on various dates in 1954, the union secured an increase in the amount of insurance cost from $5.15 to $6.15 per month per person. This additional $1 was not included by the union in its receipts as insurance income; it was entered as regular income such as dues, initiation fees, etc. From January 1 through October 1954, while Continental Assurance was still the carrier, this $1-per-month-per-person increase in premium cost brought the union $4,344.82. During the same period the union retained, by means of the 4-percent reduction for self-administration, a total of $5,498.01. Then, as a rate credit for the policy year August 1, 1953, to July 31, 1954, they received from Continental Assurance Co. $6,991.08.

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After litigation between the union and Continental Assurance, the union was given the benefit, in connection with sums it admittedly owed the company, for an additional rate credit of $4,552.44.

During the time the union has been insured through American Continental Insurance Co., or rather from November 1, 1954, until the time of the staff examination of that insurance company's records in October 1955, the self-administration fee retained by the union totaled $10,096.54. In addition, the union has retained during the same period $27,287.02 of the money received as insurance payments representing the difference between the company contributions of $6.15 and the actual premium of $5.15.

Thus, to summarize, since the inception of this insurance program in August 1951 and up to October 1955, the union treasury has been enriched to the following extent from contributions to group insurance:

Through experience rate credits	$33,998.71
Through retention of difference in insurance payments received and premium disbursed to carriers	31,631.84
	65,630.55
Through self-administration fee	28,409.57
Total	94,030.12

It is obvious that the union did expend moneys in the self-administration of this plan. It is impossible from the manner in which the union records were kept to segregate costs applicable to this insurance program and those applicable to other union operations. However, in this connection it might be noted that during the calendar year 1955 the union had two employees handling this program in its headquarters. Records show that these employees' salaries together annually aggregate approximately $8,900.

Allowing the union full credit for the amount of self-administration fees they received, i. e., conceding the administration costs equaled their allowance for this purpose, there is still the matter of the approximately $66 million which came into the union treasury as a consequence of this insurance program and for which the union as such did nothing.

From an examination of the inadequate records, it appears that the remainder of the funds received for the insurance programs was used for that purpose. While the policy was with Continental Assurance, approximately $500,000 was paid in claims; as of October 1955, American Continental had paid claims totaling about $137,000. However, it is obvious that had the insurance moneys expended by the union as regular funds been directed to their proper purposes, additional benefits could have been provided members or the cost of the program to employers and employees could have been reduced, or the employees could have had some part of this fringe benefit paid in the form of wages.

(C) FINDINGS RELATIVE TO DISPOSITION OF COMMINGLED FUNDS

The subcommittee has previously stated, through its chairman in public hearing, and in this and other reports, that it has consistently refrained from inquiring into strictly union records and operations, except in those cases where it has evidence that moneys received in

connection with an insurance or pension program have been commingled with regular union funds. The subcommittee desires to reemphasize that policy at this point and prior to reporting on the following expenditures revealed through an examination of the disbursement vouchers of local 286.

To show the extent of commingling, we review here the 1954 operations of this union.

The union received insurance payments of $204,151.28 in the calendar year 1954, and paid out in premiums only $169,957.28. It retained $33,885.66 of insurance premiums, and mixed them in its general funds. It also received a dividend of $6,991.08 and commingled this with general moneys, making a total of $40,876.74 moved into its general accounts. For the year, its entire revenues from dues, initiation fees, the withheld insurance moneys and dividends, and other sources amounted to $191,401.91 and its expenditures amounted to $201,170.97. This left a cash operating deficit of $9,769.06 for the year. Because the union started the year with a cash balance of $62,221.28, this deficit resulted in drawing down the balance to $52,452.22 at the end of the year. Without the insurance moneys, the balance would have been $11,575.48 at the end of the year.

Inspection of these disbursements makes it difficult to understand the thinking of the union officers responsible for expenditures and for keeping the records concerning them. Claims of Inciso to the contrary, there were numerous disbursements to him, in sizable amounts, for which there are no supporting documents. He alleges that he always returned to the union bookkeeper receipts, etc., for moneys paid to him; the records are to the contrary. For example:

During the period October 1953 through January 1954, Inciso received, on 10 separate occasions, a total of about $15,000, the vouchers on which read: "Advance on Or. (organization) Exp." All of the 10 expenditures were made from Inciso's special account and the checks were made payable to himself. The union records and files as turned over to the subcommittee contain nothing but these vouchers; there are no supporting documents to show for what specific purposes these amounts were expended. Inciso in his testimony contended that such supporting information should be in the files.

> Believe me, I am at a loss on that because I do tell the girl to write them down. Now she may have forgotten to write them down, but somewhere there must be some bills where I mark it all down.

With reference to one such voucher in the amount of $1,992, Inciso said:

> That could be money we were spending on the picket line, such as paying for sandwiches or any little money we needed.[12]

The subcommittee cannot state unequivocally that such payments are irregular. However, it does seem rather strange that on 10 separate but related occasions the "girl" could "have forgotten to write down" the purposes for which these moneys were expended. During the years 1953 and 1954, according to the union's records, they spent $42,967.83 for organizational purposes. Time limitations prevented the

[12] Ibid., p. 1556.

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subcommittee from checking out all of these expenditures. However, the facts and testimony received with respect to those expenditures raise serious doubts as to whether a substantial part of this money ever was used for organization as contended.

It is obvious that such expenditures without complete documentation cause serious questions as to their legitimacy. During his appearance before the subcommittee, Inciso was asked whether handling these items in such a manner didn't leave him vulnerable; he admitted, "It could." It was pointed out to him that from the fact that such expenditures were not fully documented it could be inferred that these moneys went into his own pocket; his reply was "It would seem so, but I would have no reason for it. Not while I am trying to make detailed reports all the time." [13]

Additional items located in the union records, and also charged to "Organizational expenses" included the following:

2 diamond dial watches and 2 diamond watch bands on Jan. 25, 1952	$1,050.00
1 "gents" diamond ring on Feb. 7, 1952	1,200.00
1 "gents" ring on Apr. 22, 1952	1,100.00
3 cases of whisky on Jan. 5, 1953	180.00
150 billfolds for committee and stewards as Christmas gifts on Dec. 14, 1953	918.00
3 (money) clips on May 17, 1954	1,080.00
1 money clip on June 1, 1954	360.00
1 pen and pencil set and 2 pairs of cuff links to be used as gifts on June 14, 1955	385.90
4 pair cuff links to be used as gifts	460.00

Recipients of many of the aforementioned gifts were identified by Inciso, during his public testimony, as officials of other unions, particularly Local 705, Independent, International Brotherhood of Teamsters, Chicago, all of whom he said had been of invaluable aid to him.[14] When asked if it was his custom to make gifts of this magnitude to various people, he advised in effect that it was. When asked, in connection with the aforementioned ring costing $1,200 on February 7, 1952, whether he had secured the consent of his dues-paying members, for such a gift, he answered: "No, because it would take me so long to get all my dues-paying members together, that before I get it done, it would be out of style.[15]

In this connection, reference is made to that section of the report wherein it was stated that local 286 never holds general membership meetings but instead has shop meetings. Under such an arrangement, trying to inform the membership of such gifts would be as futile as Inciso indicates. The subcommittee feels that such conditions are bad; Inciso and Doria indicated satisfaction with things as they are.

Disbursement vouchers for Inciso's special account and the regular account of the union revealed considerable expenditures for travel on the part of Inciso too numerous to discuss completely here. However, some of special interest are discussed hereinafter.

In November 1952, Inciso expended $1,400, all but $25 of which was in connection with a trip made to Phoenix, Ariz., by himself and Mrs. Inciso. These expenditures included a hotel bill at the Paradise Inn, Phoenix, of $524.32, air travel of $330.51, car rental of $164, and per diem expenses of $375 (15 days at $25 per day). In his testi-

[13] Ibid., p. 1564.
[14] Ibid., pp. 1559–1564.
[15] Ibid., p. 1559.

mony, Inciso stated that this was a business trip on behalf of local 286: "I went down there to talk to some people and to look around about putting up an office in Phoenix, Ariz., which we are going to do." When questioned as to the feasibility of a Chicago local organizing and operating in Arizona, Inciso contended that this was practical and that "* * * the local union could open up an office out there and they (the international) would grant us a charter. We would send boys out from Chicago to work in that district."[16] The subcommittee has considerable reservations as to Inciso's statements concerning these expenditures.

On January 30, 1953, Inciso withdrew $1,500 from his special account (the money was refunded him from the regular account on March 12, 1953). The disbursement voucher in connection therewith described the reasons therefor as "Travel expense for trip to Florida to meet with management of Milled Screw and Chicago Nipple and going to Puerto Rico to investigate National Video who is making parts there to bring to this country and therefore putting our girls out of work."[17] In February 1953, in connection with the same trip Inciso received an additional $500. According to the vouchers available, his expenditures for this trip totaled $1,930; $70 of his advances was later returned.

Inciso, testifying as to this trip, claimed that the voucher was in error; that he had traveled only to Florida on this trip; that it was for the purpose of negotiating with officials of the named companies who were in Florida at that time; and that he was accompanied by an organizer from the local.

In August 1953, Inciso traveled to Puerto Rico and in connection therewith expended close to $3,000. He was accompanied on this trip by William Conlisk and John Callaghan, two Chicago police officers who regularly guard him in that city and who, according to Inciso, were on vacation at the time. Their travel and expenses were included in the approximately $3,000 spent. He testified that his program in going to Puerto Rico was to talk to the management of the National Video Corp. there; that with reference to this trip, and his trip to Florida—

> * * * the membership * * * talked to me about it and they wanted that I should go down there. The membership from National Video Co. Under this advisement I went down there to see what was going on. Everybody working in that plant now who was in that plant then would be able to testify because they came to me and told me what was I going to do about it.[18]

Inciso further claimed that he went into the National Video plant in Puerto Rico to determine how the employees were working and living; and that—

> I got back to Chicago and I so reported that (the working and living conditions) to the membership. I also talked to the management about it, as he allowed me to go into his plant to see how things were being operated at that time.[18]

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[16] Ibid., pp. 1564–1565.
[17] Ibid., p. 1567 (milled screw referred to as Milwaukee screw).
[18] Ibid., p. 1570.

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The only supporting documents located in the union files with reference to this trip, with the exception of hotel bills of the Caribe Hilton in San Juan, was a handwritten card reflecting notations including the following:

> Entertainment in Puerto Rico, fishing trip, officials of National Video; entertainment, food, auto to get around the island, $1,352.90.[19]

Inciso did not explain what assistance Messrs. Conlisk and Callaghan rendered the union on this trip to substantiate the payment of their travel and expenses. Further a review of minutes of all membership meetings held for employees of National Video failed to reflect any information on Inciso's being requested by the membership to make this trip or on his reporting to the body on the conditions he found there.

During the questioning of Inciso regarding this trip, the subcommittee chairman, Senator Douglas, developed through him that the workers in Puerto Rico were being paid at a rate of between 37.5 and 45 cents per hour. The chairman in his remarks to Inciso said:

> * * * I think I should add that lavish expense accounts are not confined to union officials, but there is a fiduciary relationship here which I think should be much more carefully preserved. As one who has always defended not only the right but the necessity of labor to organize, I find it against my inner spirit to have such bills as these charged up when you are organizing low-paid workers. If you defend low-paid workers, you should expect to live in a modest way in doing so, and not live outlandishly. The defenders of the poor should have a certain common touch.[20]

Inciso subsequently testified—

> * * * I don't believe our people are too low paid in our local union, and I fight for them to get them the best of everything, and I am sure that when I travel they should give me the best of everything.[21]

The subcommittee cannot, of course, subscribe to that theory and is particularly concerned that moneys intended to provide benefits for employees come under the complete control of one advocating such a philosophy.

In February 1954, Inciso, again accompanied by Officer Callaghan—who was again on vacation—traveled to New Orleans, Haiti, Vera Cruz, Habana, Kingston, Caracas, Dutch West Indies, and Panama for a 2-month period. The cost of this trip was recorded as $4,023.47. In explanation of the trip, Inciso testified—

> We had talked about it with our membership, we should get into some of these foreign countries, see how they are operating, and see how they are living in comparison with the people in this country * * * To go down there and see what the living conditions were, * * * what the workingman was being paid and how he was living.[22]

[19] Ibid., p. 1571.
[20] Ibid., p. 1570.
[21] Ibid., p. 1576.
[22] Ibid., p. 1571.

He stated further that while in Jamaica, "I was instrumental in getting together with the cabdrivers and organizing them." [23]

A review of all minutes of all shops under local 286, and the minutes of all meetings of committeemen and shop stewards did not reveal any information indicating that Inciso had consulted any part of his membership prior to making this trip; or that the membership had indicated "we should get into some of these foreign countries," as he alleged; or that he had reported to any membership group upon his return.

In late April 1954, Inciso traveled to California, according to the records, "to see A. Doria." Vouchers reflect that this trip cost $1,045.23.[24] Expenses included $142.10 for 4 days (April 28, 30, May 1, 2) in Las Vegas; $39.85 for 3 days (April 28, 29, 30) in Fresno, Calif.; "entertainment, Chas. Lucenti, Pioneer Co.—4 other gentlemen on 3 other occasions—$200.00"; "meals pd. for in cash, $150.00"; and "tips, $75.00". The fact that Inciso had hotel bills for Las Vegas and Fresno on corresponding days was not explained. It was noted, however, that the $1,045.23 which this trip cost, consisted of a $500.00 check issued Inciso on April 22, 1954, and a check drawn to Charles Lucenti for $545.23 on May 4, 1954, both checks being on the regular account of the local at the Pioneer Trust & Savings Bank, Chicago.

Inciso and Callaghan again traveled in August 1954, reportedly to California. The cost according to the vouchers was $1,964.60.[25] Included were hotel bills of the Flamingo, Las Vegas, for $511.35, auto rent of $100.00, "$60 per day for 2 men for 9 days," $540; plane fare of $479.80, and the following:

> Miscellaneous for entertainment: Charles Lucenti, Pioneer Co., Mr. and Mrs. E. Stokes, concerning investing money for union, $314.74.

There were no hotel bills among the supporting documents for any California hotel but the card itemizing expenses was headed "Travel Exp—Trip to California," and an advance of $174.74 was made to the Beverly-Wilshire Hotel "for Angelo Inciso and J. Callahan." On being questioned about this trip Inciso claimed that he was in California first, completed his business ahead of time, and stopped by Las Vegas on the way back "to lay around for a few days."

Documents also showed that Inciso was again in Las Vegas in October 1954. A notation attached to hotel bills of the Flamingo reads thus:

> $656.00
> 1,000.00
>
> ---
>
> 1,656.00 Exp. to Cal. to talk to Doria as he wanted to see me. A. I. (1,600.00) plus entertainment

The three hotel bills totaling $647.67 are made out to Inciso, James Callaghan, and Jim Shellow, 2557 North Frederick, Milwaukee, Wis., and indicate these individuals were at this hotel on October 2 and 3, 1954. No other supporting documents were located for this expenditure of $1,656.

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[23] Ibid., p. 1572.
[24] Ibid., p. 1574.
[25] Ibid., p. 1575.

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Later in the same month, October 1954, Inciso was back in Las Vegas for 10 days. Vouchers with respect to this trip reflect the notation "Advance trip to Calif.," and Bal. for trip to Calif.," and total $1,150. These charges include a hotel bill at the Flamingo for $595.39, plane fare of $188.05, food and entertainment of $328.25, cab fare of $3.80, and excess baggage of $34.51. Again, though the vouchers make reference to California, there is no hotel bill for any city in California, and the plane ticket calls for travel from Chicago to Las Vegas and return. There is a ticket for a cab fare of $3.80 in Los Angeles, and the hotel bill contains charges for plane tickets costing $42.69. Because of these items it is possible Inciso may have traveled to California and returned to Las Vegas the same day. Inciso gave the same reason for these trips—business.

In December 1954, Inciso spent $1,419.66 on another California trip. In this connection he was paid $1,000, the voucher for which reflected the explanation: "Trip to Calif." Included in this amount was $564.67 for entertainment, $39.28 plane fare, and hotel expense of $396.05. Hotel bills attached showed that Inciso had stopped at the Hotel Bel-Air in Los Angeles on December 9, 10, and 11, 1954, had paid a rate of $50 per day, and a total bill of $216.65. Also attached were bills at the Flamingo, Las Vegas, for him and another local 286 official, Peter Lentine; these showed that these individuals were there on December 12, 13, 14, and 15, 1954, and the total bills were $274.65. The hotel bills for Los Angeles and Las Vegas exceed the total hotel expense on the voucher; thus it appears as if the amount of Lentine's bill was included in the entertainment expense or was paid by Lentine personally; Inciso's bills at Los Angeles and Las Vegas total exactly the amount of hotel expense on the voucher. An earlier voucher of December 8, 1954, recorded the expenditure of $419.66 for plane tickets for "Calif. trip."

In February 1955, Inciso received $2,385, the voucher on which read "Advance for trip to Europe." In March an additional $1,002.50 was forwarded to him through a steamship line, making a total of $3,387.50. Inciso was asked concerning this trip and said: "I went to Europe to see how the living conditions were, and also to see how the situation was." [26] He testified that he traveled to Turkey, Israel, Syria, France, Italy; that the trip took 60 days; and that he took his nephew, Ralph Napel, with him. When asked by the chairman, "Do you really think this is a proper charge against a commingled fund which has both union dues and insurance contributions in it?" Inciso replied, "I would say it is an appropriate bill as such," and then referred to his earlier claim that he considered all these moneys as dues.[27]

Doria, in his testimony, stated in effect that large expenditures for organizational purposes were generally justified and frequently the least expensive manner of accomplishing the job at hand. He did not give his opinion concerning Inciso's travels except to state that such travels are "not only done in labor." In general Doria summed up his feelings relative to these expenditures in stating

> * * * the day of the labor organization being next to the gashouse and the labor leader dressing like the turtlenecked-

[26] Ibid., p. p. 1578.
[27] Ibid., p. 1579.

> sweater bum used many times in caricature—that day is over. I think labor-union representatives today are entitled to the positions they hold.[28]

The feelings of the subcommittee in this matter can be summed up in the remarks of its chairman made during the public hearings, and which were as follows:

> Mr. Doria, what distresses me is that in your defense, and in that of Mr. Inciso, you don't seem to realize that what you are doing is taking money out of the pockets of the workers. This money doesn't come out of the air. It is contributed both in union dues and insurance payments, from people who are fairly hard pressed. Now, a sense of stewardship, a sense of trusteeship, would require a much more simple scale of living. You are not representing huge corporations. You are representing hard-pressed men who are workers.
>
> Now, apparently no report was made to the employees of National Video of this trip to Puerto Rico. That was done without telling the workers before going down there and no reports were made after the trip. I doubt that reports are made on any of these trips. The only conclusion we can draw is that they are pleasure junkets paid for, as I say, by relatively low-paid workers.
>
> Now, I don't know if this is legal. It may be. I don't know that it is illegal. But I think we should examine not only the legality but the propriety of such acts. What distresses me is that both you and Mr. Inciso seem to see nothing wrong about these expenditures. You know, it is expenditures like these which discredit the labor movement—discredit the good aims of the labor movement. They cast reflections upon unions which do not practice such expenditures.
>
> Mr. DORIA. Senator, to the contrary. It is expenditures such as these that expand the horizon of labor leaders to the point where they can more adequately compete with what is sitting across the table from them that has been doing this for 100 years.
>
> Senator DOUGLAS. I do not think that it is necessary to have diamond rings, diamond watches, to travel like millionaires in order to represent labor. You can represent labor in a blue serge suit from a $9 room just as adequately, with more support from your rank and file.[29]

With regard to these expenditures, Senator Allott of Colorado, after hearing the testimony of Mr. Inciso, observed:

> I think there are still a lot of records we could go into and explore here, but it seems to me that we have shown a very definite, plain pattern of the looting and abuse of union funds. I don't believe that anything we could say or do could even make this man (Mr. Inciso) realize the moral significance of what he has done * * *[30]

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[28] Ibid., p. 1595.
[29] Ibid., p. 1597.
[30] Ibid., p. 1581.

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Again, with regard to the attitude of Mr. Doria, Senator Allott said:

> I think that the remarks of this man, and also his predecessor on the witness stand, Mr. Inciso, have probably more graphically portrayed the conditions which this committee is aiming at than anything the committee might have produced, itself.[31]

Another expenditure, of a different nature, but of some interest, occurred in July 1954. At that time, local 286 loaned the Precision Paper Tube Co., $40,000, taking in exchange a chattel mortgage; the loan was to be repaid within a year. Inciso admitted that he alone, without any vote of his membership, made the decision relative to this loan, and claimed that union laws with respect to such say only that "I shall use judgment."[32] A review of the constitution of the international union and laws covering local unions of the United Automobile Workers of America (AFL) does not reflect any specific information on this point. The funds for this loan came, as did all other expenditures, from the commingled funds of the union.

The different and interesting aspect of this expenditure was the circumstances surrounding it. According to Inciso, the arrangements for the loan were made between he and the management of Precision Paper Tube while local 286 had a strike in process at that company. Following the settlement of the strike, the actual loan of $40,000 was made. Inciso explained it thus:

> While the people were out on strike, I was meeting with the management to negotiate an agreement. The management told me at that time that he was short of money, not that he was bankrupt. He was just short of money at the particular time. I think it was to pay his taxes. I told him that we would be more than glad to make him a loan, but it would have nothing to do with the strike and the conditions of the people would have to be gotten. When I got those conditions and the people were back to work, then we gave him the money.[33]

The subcommittee seriously questions the propriety of commingled funds being used for such a purpose. The loan was repaid. However, it is believed that a system in which expenditures of such a size and for such a purpose can be made on the authority of one individual and without resort to the membership is fraught with opportunities for abuse. It is also very doubtful that individuals contributing to an insurance plan, whether employers or employees, intended that any part of it should be used in such a manner.

4. AMERICAN CONTINENTAL INSURANCE CO.

As previously shown, Inciso canceled the group policy of local 286 with Continental Assurance and took out a new policy with American Continental Insurance Co., 10 South La Salle Street, Chicago, beginning November 1, 1954. The only reason advanced by Inciso for this change in carriers was that "We didn't feel that the Continental As-

[31] Ibid., p. 1598.
[32] Ibid., p. 1549.
[33] Ibid., p. 1551.

surance Co. was giving us a fair deal." [84] Officials at Continental Assurance purported to be unaware of just why they lost this case though they admitted having difficulty with Inciso over the payment of claims.

American Continental Insurance Co. was originally incorporated in Springfield, Ill., in 1949. In October 1954 it was purchased by a Charles Lucenti of Chicago, Ill., and moved its home office to 10 South La Salle Street in that city. Lucenti paid $40,000 for this company and subsequently invested an additional $50,000. As of October 1955, the officers of this company were Lucenti, president, and Marvin J. Peters, secretary-treasurer. Directors of the firm, in addition to Lucenti and Peters, were Angelo Inciso, Salvatore Oddo, and Mrs. Frances Hall.

The reasons advanced for the purchase of American Continental Insurance Co., and its operations to date, are, to say the least, open to considerable question.

Lucenti was allegedly too ill to appear before the subcommittee though he cooperated with staff members by allowing full examination of the records of American Continental maintained in the company offices, and complied with a subpena duces tecum by having company records produced by Marvin J. Peters, company secretary. In interviews had with Lucenti prior to the subcommittee hearings but which were testified to by a staff member, he described himself as a businessman with interests in a number of companies. He said further than he was closely associated with one Titus Haffa, another Chicago businessman, and that they conceived the idea of purchasing an insurance company and securing for that company the group insurance business of those unions representing the employees in the various plants owned or operated by Haffa and himself. He said that he had known Angelo Inciso for a number of years through the latter having organized a plant which he, Lucenti, once owned. The securing of the group policies of local 286, according to Lucenti, was not a condition precedent to his purchase of this company but was something that occurred subsequent to his and Haffa's decisions to purchase. He stated, however, that as the group policies of local 286, when they were placed with American Continental, constituted the major part of the company's business, he acceded to Inciso's desire to be affiliated with the company as a director.

Inciso, on the other hand, testified that he had talked to "many managements" relative to their (the managements) going into the insurance business "and we would give them our business." He continued, stating:

> I talked to various men and finally came across a man by the name of Charles Lucenti, and a man by the name of Titus Haffa, which I happen to know very well. I was talking to them about it and Charles Lucenti agreed that he would buy an insurance company. I said, "Here is the conditions that I will give you our business: For one, I want to watch it, because it is going to be an assessment company, as you tell me, and I don't want a lot of money wasted, because if somethink should happen that people would be assessed, I don't like that. But I will go along with you people if you will

[84] Ibid., p. 1522.

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> allow me to come into your office whenever I see fit and look at the books, talk to those girls, and that no one should get paid until this company becomes a stock company, and also I want to be on that board to watch what is going on.[35]

From testimony adduced at the hearings, it is obvious that Inciso actually managed the day-by-day operations of American Continental Insurance Co. In fact, in answer to a direct question as to "who is running the insurance company." Inciso replied, "Let's say I am." [36] Mrs. Evelyn Cline, former bookkeeper for the company, who assisted staff members in their examination of company books and records with the consent of Messrs. Lucenti and Peters, was fired (we regret to say) by Inciso because she agreed to work overtime in assisting the staff. Such unilateral action by Inciso is conclusive of his control over this insurance company.

The activities and operations of American Continental Insurance Co. are within the jurisdiction of the Department of Insurance of Illinois. However, the subcommittee feels that the manner in which this company has been operated and the dual position of Inciso as insurance company manager and head of local 286 are highly irregular.

The insurance applications for the master policies issued local 286 are unsigned; Inciso has refused to sign them.

Certain of the insurance company records are kept at union headquarters. All claims are handled at the union office, even with respect to group policies other than those issued local 286.

Group policies have been sold, by Inciso and Lucenti, without the benefit of actuarial advice, and without regard to the age and sex composition of the groups.

Local 286 takes the premium discount of 4 percent although there is nothing in the files of American Continental to indicate the company authorized this. Evidence was to the effect that Inciso says it should be taken, and it is.

Salvatore Oddo, an attorney for the union, is being paid a flat commission of 2 percent on the policy issued to local 286 and on some of the business written by the company although there is no agreement on file with the company to this effect. According to the testimony, the commission is being paid Oddo because Inciso has so ordered.

It is not necessary, under the policies issued, for the company to notify policyholders of the annual meeting. As a result, the testimony indicated Inciso packed the meeting of October 1955, through votes which he controlled. There were even policies issued to his police guards, Conlisk and Callaghan, who attended the meeting.

The policy used by American Continental with local 286 appeared to be an exact copy of the policy contract employed by the previous carrier, Continental Assurance Co.

The subcommittee will provide copies of this report, and transcripts of its public hearings, to the Department of Justice of Illinois. It will also make available to that apartment any and all information in its files relative to American Continental and Angelo Inciso. Whether the company is being operated in violation of the insurance code of the State is a question, of course, for the Illinois Department of Insurance.

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[35] Ibid., p. 1523.
[36] Ibid., p. 1527.

Regardless of whether the company is, or is not, being operated in violation of the Insurance Code, the subcommittee most earnestly questions the soundness of allowing an insurance company to be run by an individual, without specialized knowledge of this complex field of insurance, and who has the power to dictate the policies of both the insurance company and its largest policyholder, to his own ends and purposes.

5. REMARKS

As the subcommittee already has set forth at pertinent points its conclusions with regard to the various practices, expenditures, etc., which were, and are, being engaged in in the operation of this insurance program, they will not be repeated here. Suffice to say that the subcommittee is greatly concerned about these practices and definitely believes that they should be brought to the attention of the appropriate parties for their information and consideration.

Accordingly, the subcommittee is, as previously stated, providing copies of this report and of its hearings to the State department of insurance in Illinois.

Subsequent to the disclosures before the subcommittee, a subpena duces tecum was served on Angelo Inciso by the United States attorney in Chicago, Ill., and a copy directed to the subcommittee, calling for the production of books and records of Amalgamated local 286. Therefore, when the subcommittee staff has no further need for that material, it will be turned over to that United States attorney. He also will be furnished with a copy of instant report and of the public hearings of the subcommittee.

Copies of this report and the transcript of the public hearings will be transmitted to the Attorney General of the United States, the Internal Revenue Service, the attorney general of the State of Illinois, and the States attorney for Cook County, Ill.

B. THE CONTINENTAL ASSURANCE CO.

1. INTRODUCTION

The survey of group insurance transactions conducted by this subcommittee [37] revealed that certain insurance carriers enjoyed unusually high retentions in their transactions and paid over-liberal commissions and service fees to their agents and brokers. As a result, the subcommittee conducted field investigations of some of these companies. The Continental Assurance Co. was one of them.

The investigation of the Continental Assurance Co. developed into one of the most significant of the various studies and investigations of the subcommittee. An old-line legal reserve life insurance company, established well over 40 years ago and writing group insurance for over a quarter of a century, the company claims to be "among the top 5 percent in size" and "among the top 10 group-writing companies." [38] The trade journals of the insurance industry state that the company is of high repute. The practices brought out by the investigations and the testimony of the company's officials and others at hearings before the subcommittee indicate that they result in pref-

[37] See sec. IX, p. 309, infra.
[38] Continental Assurance Co., Group Insurance Manual, pt. 3, p. 5.

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erential treatment of informed and vigilant policyholders, and in abuses and irregularities. Moreover, the company's practices seem to reflect the attitude that if it is going to get its share of the group business, it has to be "flexible."

The case of the C. J. Simons Corp., a general agent of this company, the details of which are set out below, illustrates a result which may flow from these practices.

2. THE COMPANY

The Continental Assurance Co. has its home office in Chicago, Ill. It operates as a stock company, sells a complete line of life and accident and health insurance, and is licensed to do business in all of the States and most of Canada.

The company enjoys an excellent reputation in the insurance industry. According to the Spectator Insurance Year Book, it is well managed and has a steadily growing volume of business as measured by premium income. Its reserves and assets are substantial and are increasing annually. It has strong financial backing. The year book states that the company uses sound and conservative actuarial methods, has a reputation for prompt payment of claims, and that its operating and acquisition costs are moderate.

The company's latest annual report states than on December 31, 1954, it had admitted assets of about $338,395,000 and capital funds of approximately $31,150,000.

The company has been writing group insurance since 1928.

3. THE COMPANY'S RELATION TO OTHER INSURANCE CARRIERS

The Continental Assurance Co. is one of four affiliated companies; the Continental Casualty Co. and its subsidiary, the Transportation Insurance Co.; the Continental Assurance Co., and the United States Life Insurance Co. Three of these firms are located in Chicago; the fourth, the United States Life Insurance Co., is located in New York City. Only the last two of these companies write life insurance.

Their corporate relationships are established through the ownership of common stock and interlocking directorates. The Continental Casualty Co. owned, on December 31, 1954, 37 percent of the common stock of the Continental Assurance Co. and 50 percent of the common stock of the United States Life Insurance Co. The Continental Assurance Co., in turn, owned 24 percent of the common stock of the United States Life Insurance Co. Almost 75 percent of the common stock of the United States Life Insurance Co., therefore, was owned by the Continental Casualty Co. and the Continental Assurance Co.

The president of the Continental Assurance Co., Roy Tuchbreiter, is also president of the Continental Casualty and chairman of the board of the United States Life Insurance Co. He is also a director of each of the three companies. Five of the company's vice presidents hold similar offices as well as directorships in at least two of the affiliated companies. In addition, 14 other officers are either officers, directors, or both, of at least 2 of the affiliated companies.

4. VOLUME OF BUSINESS

The company's group insurance business as measured by its billed premiums has increased over 37 percent between 1952 and 1954, as is shown below.

Group premiums by year and by type of insurance

Calendar year	Total	Life	Annuities	Accident and health
1952	$41,171,276	$21,191,643	$2,589,456	$17,390,177
1953	49,046,916	24,431,330	3,139,074	21,476,511
1954	56,515,156	27,343,957	3,990,242	25,180,957

Source: Letter from Continental Assurance Co. to Subcommittee on Welfare and Pension Funds, dated Oct. 13, 1955.

The importance of the group business to this company is illustrated by the fact that the net premiums written for 1954 on the company's total accident and health business, other than group accident and health business, was only $846,061.[39]

Most of this group business consisted of small policies. A special tabulation of the group insurance policies in force in 1953 reveals that over 43 percent of them covered fewer than 25 lives each, and 65 percent fewer than 100 lives each.

It will be recalled that the Continental Casualty Co., with which this company is affiliated, does not write life insurance. It is not surprising, therefore, that officials of the company state that 10 percent of its business consists of life insurance issued in connection with group accident and health insurance written by the Continental Casualty Co.

A significant proportion of the company's group insurance business consists of policies issued under arrangements in which trade unions have a voice in the selection of the insurance carriers. In response to the subcommittee's survey of welfare and pension funds, Continental Assurance Co. reported 63 such policies issued or renewed in 1952, with billed premiums totalling $4,151,319. The company's experience with this business, as compared with the 70 companies reporting similar business, shows a lower claims ratio, slightly smaller experience rating refunds to policyholders, higher commissions and service fees to agents and brokers, and higher retentions, as set forth below:

Comparison of experience of Continental Assurance Co. with that of 70 reporting companies

Item		Percent of billed premium	
		This company	70 companies
Billed premiums	$4,151,319	100.0	100.0
Incurred claims	3,182,994	76.6	79.5
Experience rating refund	318,497	7.7	8.0
Company retentions	649,378	15.7	12.5
Commissions	167,233	(4.0)	(3.4)
Service fees	101,876	(2.5)	(0.9)
Remainder	380,269	(9.2)	(8.2)

[39] The Spectator, 1955 Accident Insurance Register, p. 16.

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To some extent, these differences may be attributed to the fact that, as indicated above, the company's business consists mainly of small policies.

5. SALES AND SERVICE ORGANIZATION

The company obtains its business through 381 general agents. These general agents produce business through brokers or soliciting agents, in addition to the business they obtain directly.

The company maintains branch offices in New York, Dallas, and Los Angeles. In the manual for its agents the company states that with its home office (located in Chicago) and these branch offices, "We are in a better position to send trained and experienced group representatives to any section of the country on a few days notice." Its home office staff and field group representatives are available to help the agent sell and service the case and the company urges the agents to make full use of them.

The company maintains a "proposal department" to prepare proposals to be submitted to prospects. Its branch office and field staffs are available to help in making sales and in many instances follow the cases very closely until they are consummated. Once the policy has been sold, these company employees do much, if not most, of the work necessary to install it. In self-administered cases, the company sends its trained men to help set up the administrative procedures. Thereafter, the company's "Service department," through its branch offices, attempts to contact each account at least once a year, and the larger ones as often as necessary.

The subcommittee staff found many instances in which branch office staff members have had far more contacts with the policyholders than the agent or broker.

6. REMUNERATION OF AGENTS

Like nearly all insurance companies, Continental Assurance Co. pays its agents a commission on the business they produce. In addition, many agents are paid service fees, presumably to compensate them for services which they render which would otherwise be rendered by the company. Until recently, at least one agent was paid a "contingency bonus," in addition.

(A) COMMISSIONS

Commissions on any one case generally consist of a first-year commission and nine renewal yearly commissions, so long as the case remains on the books. After the 10th year, the renewal commission would continue "according to the commission agreement and subject to satisfactory servicing."[40] The company, however, has 17 different commissions schedules.[41] Only 13 of them are of interest in this investigation, since the other 4 relate to creditors insurance. The

[40] Continental Assurance Co., op. cit., p. 23.
[41] Letter from Continental Assurance Co. to subcommittee, dated September 22, 1954.

rates of commission are usually on a decremental scale. The one most often used, commission schedule No. 6, follows:

Premium	Commission		Premium	Commission	
	First year	Renewal		First year	Renewal
	Percent	*Percent*		*Percent*	*Percent*
1st $1,000	23.0	6.0	Next $20,000	8.0	2.5
Next $4,000	23.0	4.0	Next $50,000	2.5	2.0
Next $5,000	18.0	2.5	Next $150,000	1.0	1.0
Next $10,000	15.5	2.5	Next $250,000	.25	.2
Next $10,000	13.0	2.5	Next $500,000	.1	.2

This commission schedule includes a graded overwriting commission for the general agent of 3 percent for the first year and 1 percent for subsequent years, the remainder being paid to the soliciting agents.

The commission rates are designed to flatten out the amount payable for large policies. However, in applying the commission rates, the different kinds of coverage are considered separately. Thus, if a plan includes life insurance, accidental death and dismemberment, accident and sickness, and one or more of the various other forms of health insurance, each of these four coverages constitutes a separate policy. The effect of such a practice, which is not uncommon among insurance companies, is obvious. The commissions on a modest plan involving $15,000 in annual premiums divided more or less equally among these 4 coverages would amount to $3,450 for the first year, and $680 annually in renewal commissions. If the four coverages were considered one policy, the first year and renewal commissions would be only $2,825 and $470, respectively.

There is strong indication that the company's own home office, branch office and field representative organizations do a substantial amount of the work necessary to obtain, install, service, and hold a case. The company maintains a staff for this purpose. The amount of staff assistance that is offered to agents is considered by this company as one of its strong inducements to them to do business with it. The subcommittee staff has found in the files of this company many entries pointing to the extent to which the field staff has been active in holding cases. For example, the files are replete with correspondence between branch office and home office urging it to keep down the premium rates in individual cases so as to hold the case. Even though branch office actions may be motivated by the brokers, the active interest in holding cases that is displayed by the branch offices raises the question as to the extent to which the agents earn their renewal commissions.

The subcommittee staff found that a "contingency bonus" had been paid to one agent, in addition to his regular commissions and service fees, on practically all his cases. This agent, the C. J. Simons Corp., of Newark, N. J., is one of the company's best producers. The billed premiums on this agency's business with the company during the last 4 years ranged from $2 million to $3 million annually. The agency administers all its cases, including claims handling. The rate at which the contingency bonus is payable depends on the claims experience on the entire business. It ranges from 2 percent to 10 percent of billed premiums, depending on the claims ratio. The lower the aggregate

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claims ratio, the higher the bonus. Actually, because of the claims experience, the bonus developed during the period, ranged from 2 percent to 6 percent per year. For the period, July 1, 1951, to September 31, 1955, this agency received $208,000 in contingency bonuses.[42]

The practice of paying contingency bonuses appears to be used only by a small number of companies. Insurance carriers generally feel that remunerating the agents on the basis of claims ratio does not serve the best interest of policyholders and beneficiaries. This practice is regarded as a "built-in" incentive to hold down claims which can result in denying just benefits to the beneficiaries. The practice, it is felt, can inure only to the interest of the agent and the carrier and is especially difficult to condone when neither the policyholder nor the employee-beneficiaries are aware of its existence. When questioned on this point, Mr. Paul H. Rinker, the company's vice president in charge of group insurance, testified at the hearings that a precedent for this practice existed in other insurance business where some sort of an incentive for the production of "good risks" is beneficial from an underwriting point of view. He stated that the arrangement had been entered into by the company with the C. J. Simons Corp. when Mr. Simons came to him with the idea that he wanted to develop a "real group department" and that in order to do this he needed to establish a complete staff of claims adjusters, salesmen, and administration and clerical personnel. "At the time," he stated, "the idea of this bonus * * * this incentive seemed to us to be fair and sound thinking." He added that—

> in retrospective thinking, it probably is something that I would not like to enter into again.[43]

It is fair to say in this connection that the company, recognizing the dangers of this practice, made periodic audits of the agency's claims handling and found it to be entirely satisfactory.

Schedules of commissions payable by an insurance company doing business in New York must be filed with the insurance department of that State. Yet the company, in its letter to the subcommittee transmitting its 17 commission schedules, states: "Commission schedules 1 to 8 are the present standard commissions filed with the New York State Insurance Department."[44] It may be pointed out that the contingency bonus payable to at least one of this company's general agents was not filed with the New York State Insurance Department by the Continental Assurance Co. until October 3, 1955, or later. The company explained that failure to file this contingency bonus was due solely to the fact that the agreement with this broker was entered into prior to the time the company was admitted to do business in New York State. The company finally did file at the New York department's request, and the latter approved the contingency bonus agreement. This bonus had not been reported on the questionnaires sent by the company to the subcommittee although the questionnaires sought information on amounts paid as commissions, fees, allowances, or any other payment.

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[42] Idem.
[43] Hearings, pt. 3, pp. 1317–1318.
[44] Letter from Continental Assurance Co. to subcommittee, dated September 24, 1954.

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(B) SERVICE FEES

The subcommittee staff found many instances in which service fees were paid by Continental Assurance Co. to agents, presumably for the performance of functions that would otherwise be performed by the company.

The fees varied. The questionnaires filed by the company showed 3 fee schedules: Schedule B, 2 percent; schedule C, 3 percent; and schedule D, 4 percent. The 4 percent presumably includes 2 percent for administration and 2 percent for claims handling. There were, however, several variations. For example, in one case the fees were 10 percent from 1948 to 1953, after which they were dropped to 4 percent. In another, they were 3 percent from May 1950 to May 1955 and then reduced to 2.5 percent. In the 63 cases issued or renewed in 1952, as reported by the company, service fees in the aggregate were 2.5 percent of billed premiums.

In light of the impressive service facilities maintained by the company, the extent to which agents perform these services becomes subject to question. Especially since, in some instances, administrative allowances were also made to the policyholder. The contingency bonus paid to Simons was for the ostensible purpose of assisting the agency in maintaining a service staff. The Simons Corp. also received an overwrite on commissions earned by soliciting agents who produced the business. One may then ask: Why the overwrite commission? One wonders, then, whether service fees were not really in the nature of additional commissions. It might be pointed out that testimony of company officials suggests that fees of 4 percent for administration and claims handling are probably on the generous side. When questioned on these points, officials of the company seemed to have some difficulty in defining administration and estimated that claims could be handled for approximately 1 to 2 percent of billed premiums.[45]

(C) THE CUMULATIVE EFFECT OF COMMISSIONS, FEES, AND BONUSES

The cumulative effect of this method of remunerating agents and brokers is one that is well exemplified in the case of the C. J. Simons Corp. In the testimony before the subcommittee during the hearings, the staff pointed out that the worksheet in one of the files examined at the company's home office divided the payments to this agent generally as follows: Bonus, 4 percent; commission, 4 percent; administration allowance, 4 percent. Thus, a flat 12 percent was paid on this case.[46]

The Simons case is replete with instances in which the accumulations of payments such as those cited above found their way to individuals who had no part in administration of welfare funds, but who were paid administration fees; to individuals without insurance broker's licenses, who had no part in "selling" the insurance but who were paid commissions; and to individuals with broker's licenses who did no selling, furnished an occasional lead, but received commissions. The amounts paid, in some instances, amounted to as much as $40,000.

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[45] Hearings, pt. 3, p. 1351.
[46] Ibid., p. 1296.

7. AGENCY ACCOUNTING

Another practice followed by this company consists of arrangements whereby the general agent conducts all the transactions with the policyholders. He receives the premiums from the policyholder. In situations where an experience rating refund was allowed, the agent often requested that it be credited to current premiums due, and the agent's check for the remainder was forwarded to the company. In such arrangements, the company has no contact with the policyholder, does not know who the covered employees are, and is more or less ignorant of the amount of premiums due. It relies entirely on the agent and on periodic audits. The subcommittee found this practice to have been limited to a few agents, including the C. J. Simons Corp. It is this practice that has made it possible for the C. J. Simons Corp. to withhold some $164,000 in premiums from the company,[47] by reporting smaller premium liabilities than were actually due. In this case the agent apparently, in time, was unable to continue the payments of administration fees and commissions for which he was obligated and began to withhold premiums. When asked how many of its agents collect premiums for the company, Mr. Rinker testified that there were "maybe 3 or 4, if any, who are doing so now."[48] He freely admitted that the practice was a poor one and was undesirable.

8. TREATMENT OF POLICYHOLDERS

The manner in which the premiums for group insurance is determined has already been discussed in another part of this subcommittee's report. It has also been pointed out that there are certain factors (apart from actual claims) in group insurance that affect the final cost to the policyholders. In brief, these factors are premium rates, discounts for size, administration allowances, retention agreements, and dividends or experience rating refunds. In the subcommittee's investigation of the practices of the Continental Assurance Co., evidence of balancing of these factors in such a way that they result in unequal treatment of policyholders has been found. In general, policyholders who were "on their toes" or whose agents were aggressive received better treatment than others.

(A) PREMIUM RATES

Since the first year premium for life insurance, charged by companies doing business in New York State, must be the basic rate, known throughout the insurance industry as the "C. S. O." or "U" rate, the first year premium is the same regardless of the insurance carrier. For the second and subsequent years, the premium may be changed in accordance with the experience developed by the group. In addition, however, the premium for group life insurance may be expected to vary from time to time simply because the group as a whole becomes older or is a younger group. Insurance carriers, therefore, reexamine the age composition of a group periodically to determine what the new rates should be in the event that the age composition has changed. This is known as "reaging."

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[47] Ibid., pp. 1304, 1308, 1320.
[48] Ibid., p. 1319.

The staff testified at the hearings that they found many cases in which reaging resulted in higher premium rates but that after much correspondence between the branch office, or the agent, and the home office, the higher rates either were not applied, or were reduced in order to retain the business. For example, in one case the original rate had been set, in 1949, at 87 cents per month per $1,000 of life insurance. The policy was not reaged until 1954 when the New York office determined that the new rate should be $1.11. It wrote the home office urging that the rate be retained at 87 cents because the policy was a fairly large one. The home office replied that it would allow a 15 percent discount, thus reducing the rate to 94 cents and asked the New York office to advise the policyholder accordingly. The group underwriting department of the home office wrote the agent in the case confirming a 20-percent discount resulting in a rate of 89 cents.[49]

In another case, the policy had been reaged, raising the rate from $1.06 to $1.21. After the agent inquired into the case, the home office allowed a 5-percent discount. The following year, after similar correspondence, a further discount of 5 percent was allowed.

With respect to accident and health insurance, insurance carriers must use, for the first year's premium, the rates they have filed with the insurance department. Thereafter, the rate may be changed in accordance with the experience for the particular group. Subcommittee staff members testified that they found many instances in which discounts from the manual rates were allowed after correspondence between the agents and the policyholders.[50] For example, in the first case cited above the agent at one time had asked that the rates be reduced, whereupon the home office replied that the rate already was 5 percent below the manual rates. Some time later, after further correspondence, a monthly rate for surgical benefits was reduced from 58 cents to 54 cents. In another case, a 5-percent discount was allowed when the agent informed the home office that the employer had been approached by another insurance carrier. In a third case, after the agent began to inquire into the experience with the case, the rates on each of the benefits provided were reduced in amounts varying from 5 to 15 percent.

Instances of the above character suggest that the company's policy with respect to rates is flexible, at the least, and responds to pressure on the part of the policyholder or his agent. Although this point was raised during the hearings, there was no specific comment on it by company officials who testified.

(B) ADMINISTRATION ALLOWANCES

Self-administration allowances are commonly made by insurance carriers to policyholders who perform functions that would otherwise be performed by the carriers. Many instances, however, were found in which allowances were made by the Continental Assurance Co. to policyholders for functions that are not insurance company functions or were not, in fact, performed by the policyholder. In some instances, the agents were already receiving service fees, presumably for performing the same functions. Staff members testified on this point. In one case (*a*) the company advised the agent, C. J.

[49] Ibid., p. 1298.
[50] Ibid., p. 1299.

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Simons Corp., that it was withholding the experience rating refund pending the approval by the policyholder (a trust fund) of a 6-percent administration allowance to be paid to the trustees. Should the trustees of the fund not authorize this allowance, the amount would be included in the refund. The agent replied, asking the company to send him a check for the amount ($855), whereupon the company credited the agent's account with that amount so that the latter could draw a check payable to the trustees.[51] In this case the agent was already receiving a 4-percent administration fee.

In another case (*b*) the policyholder was considering another carrier. The New York office wrote the home office informing it of this situation and stated that the policyholder would stay with Continental if he were given a reduction in gross premiums. After some correspondence, a 2-percent administration allowance, to be figured on the net premium, was put into effect. Eventually the arrangement came to the attention of a member of the home office staff who, in a memorandum to the New York office, inquired, "Are we allowing 2-percent administration allowance on a home office administered case?" Whereupon the New York office replied that a 2-percent self-administration allowance had been approved 2 years earlier.[52]

In still another case (*c*) the agent paid a 6-percent allowance to the policyholder out of his administration fee of 10 percent from 1948 to 1953, and discontinued this practice after his fee was reduced to 4 percent.

These cases illustrate that administration allowances paid to policyholders are not solely on the basis of performance of insurance company functions. When the subcommittee staff members questioned company officials in the course of their investigation at the company home offices, they were informed that administration allowances made to multiemployer trust funds were intended to cover such expenses as those of collecting employer contributions. These expenses are properly a charge against the cost of administering the fund and should not be charged against the cost of insurance. By shifting this charge to the insurance, the real cost of administering the welfare fund is obscured.

The cases (*b*) and (*c*) illustrate instances where administration allowances were in fact advance discounts.

(C) EXPERIENCE RATING REFUNDS

In common with other stock insurance companies, Continental Assurance Co. make "experience rating refunds" to its group-insurance policyholders. This practice is similar to the practice of paying "dividends" which is general among mutual insurance companies. The refund is made on a case at the end of the policy year when the insurance company finds that after it has met incurred claims, set aside necessary reserves, met all expenses chargeable to the case (including taxes), and experienced a certain profit, there is an amount

[51] Correspondence between C. J. Simons Corp. and Continental Casualty Co. relative to the retail associated health plan: dated October 18, 1951. Russell P. Inskeep to Frank Moore; March 6, 1952, Russell P. Inskeep to William Croland; May 8, 1952, Moore to Inskeep; May 23, 1952, Inskeep to Moore.

[52] Memoranda relative to Fulton Fish Market Welfare Fund (Gruber, Lynch, and Sloan, agent); October 13, 1953, New York group supervisor (Walsh) to home office group underwriter (Dewey); November 12, 1953, Dewey to Walsh; April 18, 1955, Loeback (home office) to O'Connor (New York); May 6, 1955, O'Connor to Loeback; May 9, 1955, Dewey to Inskeep.

left from the premiums received that warrants a refund to the policyholder. The refund is calculated on the basis of a retention formula considered by insurance companies to be a valuable and confidential property.

As was pointed out, cases reported to the subcommittee by the Continental Assurance Co. show that with respect to policies issued or renewed in 1952, experience rating refunds, in the aggregate, were somewhat smaller (7.7 percent of billed premiums) than those on the policies reported by all the reporting companies (8 percent), despite a smaller claims ratio (76.6 percent as against 79.5 percent). After meeting incurred claims and making its experience rating refunds, the company retained noticeably more (15.7 percent) of billed premiums than the average of the other reporting companies (12.5 percent). Again, this may have been due to some extent to the fact that the company's business consists mainly of small policies.

The staff testified at the hearings that they found little evidence of a uniform policy on company retentions and experience rating refunds. When questioned on this point and asked whether the retention formula is fixed or can be "tinkered with," company officials withheld comment.[53]

Staff testimony, which was not challenged, showed that all cases do not come up routinely for consideration and that small cases are ordinarily not considered at all. This is illustrated by two cases. In the first, the agent wrote the company stating that because of the low loss ratio, a refund should be made to the policyholder. The company replied that it was not proper to allow a refund on small cases (in this instance 130 lives was considered small) and that the renewal of this policy had not been predicated on a refund. However, it would do so in this case. In another, the company wrote one of its field representatives: "although in general we were not paying rate credits on groups of less than $10,000 of yearly premium * * * since their experience has been quite favorable they are entitled to a refund." [54]

One interesting case brought out during the hearings concerned a group insurance policy issued to an employer. In this case the company wrote its field agent that the experience with the policy had been quite favorable, that the employer was entitled to an experience rating refund but that the company was hesitating to pay it because "several other steel groups of a similar size indicated that they did not wish to receive any refund, as the insurance had been purchased under an agreement with the union and the employer was obligated to pay a certain specific amount for insurance. If any refund was obtained it would only be turned over to the union and the employer would not derive any savings from his own costs." [55] Interrogated on this point, the company officials explained that they had 2 or 3 cases where small refunds were in order but that the employers asked them to hold them in reserve with the understanding that, if experience were bad in subsequent years, it might make it possible for the companies to continue the insurance longer without a rate increase.

Under the New York State Insurance Department regulations, guaranteed retention agreements cannot be entered into. Yet, a num-

[53] Ibid., p. 1364.
[54] Ibid., p. 1358.
[55] Idem.

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ber of cases were found in which the agreements, while not guaranties, were very strong commitments. Company officials testifying before the subcommittee made no comments on the evidence on this point. In one case the company wrote the policyholder that while under a recent ruling of the New York State Insurance Department the guaranteeing of retention formulas was forbidden, "We do, however, wish to reassure that the retention of 9 percent of gross premiums for the policy year, January 1, 1954, to December 31, 1954, is correct and not subject to change." [56] In another case, at the time the policy was first issued, the company wrote the policyholder a 2-page letter setting forth the retention formula (26 percent, first year; 15 percent thereafter) that would apply and the manner in which the experience rating refunds would be computed.[57]

The subcommittee staff testified that they found many cases in which there was much correspondence between the company branch office staff, policyholders or agents and the home office relative to the experience rating refunds, and that in cases where they found such correspondence, refunds were made or increased. There was much evidence that the payments of refunds or their amounts responded to the active interest of the policyholders or their agents. In one case, after a series of letters between the agent and the home office, the amount of the refund for the second and third year was finally agreed upon. In the same case, after the agent inquired about the refund for the 1953 policy year, the company replied that the loss ratio had been high and resulted in a small refund of $33.99, "* * * hardly worthwhile making such a small refund" but did so anyway.[58]

The case involving 130 lives, already cited, illustrates the manner in which the agent's interest in the case resulted in a refund of 8.7 percent of billed premium that otherwise would not have been made.

When asked about its policy with respect to experience rating refunds, the company officials readily admitted that as respects both trust funds and single employers, some groups receive better treatment than others. Mr. Paul Rinker stated, "I would say so, due to several reasons. One could be a far more able representative of theirs. A man trained in group insurance very often, I think, forces the hand of the insurers in that point * * *" [59]

Earlier, when Mr. Rinker was asked to comment on staff testimony that it was their feeling that various cases were treated differently depending on the knowledge of the policyholder or his agent and on their energy and aggressiveness, and on the testimony of an official of another insurance company that "everyone is not treated alike. That is another fallacy of this bonus or dividend system under which we operate," he replied, "I think that is probably true of most every company, frankly, and I think that is something you no doubt wish to consider carefully. The squeaking wheel gets oil." [60]

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[56] Ibid., p. 1300.
[57] Fulton Fish Market welfare fund. Letter of November 1, 1951, from Richard O'Connor, manager, group department, to Arthur Coller, fund administrator.
[58] Retail associated health plan, various letters especially March 3, 1954, Moore to Inskeep; April 13, 1954, Inskeep to Moore.
[59] Hearings, pt. 3, p. 1366.
[60] Idem.

9. THE C. J. SIMONS CORP.

C. J. Simons Corp. of Newark, N. J., general agent for Continental Assurance Co., has been one of the largest single producers of group business for that company during the past 10 years. From 1951 to 1955, the C. J. Simons Corp. wrote group insurance involving a gross premium of between $2 million and $3 million per year. Most of this business was written by William H. Croland, treasurer of the corporation and owner of 50 percent of its stock.

For this business, Continental Assurance Co. paid to the C. J. Simons Corp. commissions of 23 percent graded on new business; 6 percent graded on renewals; 4 percent for administration and claims handling; and 2 to 10 percent contingency bonus arrangement based on claims experience. The graded commissions, as is the practice with the Continental Assurance Co., were applied separately to life insurance and each of the other three coverages.

According to Mr. C. J. Simons, practically all of the group business was included in his 4 percent administration fee arrangement. In many cases, the company paid another administration fee to the policyholder, usually in the amount of 6 percent, through the Simons Corp. The Continental Assurance Co., therefore, was paying, on several cases, 10 percent of premium for so-called administration and claims-handling services. Paul Rinker, testifying on December 1, 1955, explained that the payment of an administration fee to the trustees of a fund was actually offset by a reduction of the experience rating refund which might be due to that particular fund, and that it made little difference whether this 6 percent of premium was paid as an administration fee to the trustees or included as part of the refund. These administration fees are always paid on instructions from the trustees (the policyholders). It is difficult to understand the policyholder's motive in requesting that refunds be handled in this fashion.

About 75 percent of the group business produced by C. J. Simons Corp. came under the contingency bonus arrangement with Continental Assurance. Under this arrangement, the lower the loss ratio, the higher contingency bonus was paid to the agency. As a practical matter the amount actually paid in extra commissions was 2 to 6 percent of premium. When these facts are applied against the regular pattern of kickback payments made by the Simons Corp., which are discussed below, it would appear that the contingency commissions were used in part for that purpose.

Many practices of a rather irregular nature to which Simons and the Continental Assurance Co. were parties were explained by Mr. Rinker as resulting from the pressure of competition. For example, in one case, that company wrote the same policy twice within a 2-year period, each time paying high first-year commissions.[61] There were many instances of unequal treatment of policyholders by adjusting retention and experience rating refunds to fit the circumstances of each case. In one case, the first year's experience rating report showed a deficit of $1,100 and in order to develop a refund, C. J. Simons Corp. agreed to surrender their administration allowance and contingency bonus which produced a refund of $7,700 when the experience report was revised.[62] In another case, Continental authorized C. J. Simons

[61] Ibid., p. 1356.
[62] Trucking employees of Passaic and Bergen Counties. Letters between agent and company, dated May 5, 1954, and July 30, 1954.

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Corp. to make a retroactive refund of 2 percent of premium in order to prevent the case from going to a competitor.[63] There are other such examples including one case where Continental Assurance Co. reduced the amount of experience rating refund which had been developed because, after discussing the matter with C. J. Simons Corp., it was decided that the refund was too large and the insurance company then retained an additional $1,900.[64] In still another case, the experience report was revised and the refund reduced in order to pay a 6-percent administration fee to the trustees of the welfare funds.[65]

For several years, it was the company's practice to permit the C. J. Simons Corp. to take credit for their policyholders' refunds against premiums due and allowing the corporation to send in a Simons check for the balance. The insurance company had no dealings or contact with the policyholders. The Simons Corp. paid claims out of a special account established by the insurance company in a Newark bank. Checks payable to the insurance company were often deposited in this account by the Simons Corp.

This practice made it possible for William H. Croland of the C. J. Simons Corp. to withhold from the insurance company portions of premium in 13 cases. Croland admitted to having withheld a total of $164,000 in this manner.

He maintained that he did not retain any of the funds withheld for his own personal use but paid all of it, and more, in the form of "administrative fee," wherever necessary to obtain or keep the business. These payments were made by check of the corporation signed by both William H. Croland and Charles J. Simons. Croland testified that this money was paid out to individuals and in amounts dictated by persons who controlled the placing of the business. In many instances, large amounts of money were paid to persons who had no connection whatever with the writing of the insurance policies. Some of these persons were not licensed insurance brokers or agents. Others, though licensed, pursued other callings. One of them was a plumber, another a union official. Although only a small part of the records of C. J. Simons Corp. were available for inspection, the staff was able to trace $150,000 in payments of this nature. These ranged from $6,000 to over $40,000, and were obviously kickbacks to various individuals. Croland thought it was an acceptable practice to pay administration fees because in so many cases the Continental Assurance Co. authorized payment of such fees to policyholders in order to obtain the business. He also found justification in the fact that in 1946 a group of cases was handed to him by the eastern department manager of the Continental Casualty Co. In connection with these cases, he claims to have received specific instructions from the manager to pay about $1,100 each quarter to a local union in New York for rent and stenographic services, and 2.5 percent of premium to the employer trustees and to the union trustee. He has done so ever since.

The Continental Assurance Co. first learned of this withholding of premium by the C. J. Simons Corp. in January 1954 when Croland volunteered the information that he had withheld about $32,000 in

[63] Memorandum from Russell P. Inskeep, dated October 2, 1950, in re retail shoe health commission.

[64] Insurance welfare fund of the Brotherhood of Painters of Queens County. Letters between agent and company, dated October 11 and December 6, 1949.

[65] Retail furniture employees' welfare fund. Letters betwen company and agent, dated January 31 and March 7, 1950.

premiums in one case. In August 1954 Croland again volunteered information on the withholding of premiums in the total amount of $132,000 in 12 other cases. A settlement was reached between the insurance company and the C. J. Simons Corp. whereby the Simons Corp. was given credit for all commissions, fees, and contingency bonus developing on these cases against the premiums due to the insurance company. The company did not report Croland's activities to any law-enforcement agency nor did it notify their policyholders that the agent had withheld part of their premium payments. The insurance company's aim was that of recovery of the amount of premium due and of saving the reputation of its very productive general agent. The company sent audit letters to all of this agency's group policyholders, although it did not inform them of discrepancies in the agency's accounts.

William H. Croland resigned as an officer of the C. J. Simons Corp. on January 1, 1955, upon the insistence of Continental Assurance Co., but he did not resign as an employee of the corporation until October 10, 1955, 3 days after the subcommittee staff had completed its investigation of the insurance company in Chicago. There was testimony at the hearings of the subcommittee that Croland still retained a 50-percent interest in the corporation after his resignation. Croland now operates an insurance brokerage business from his home. As late as November 1955, subcommittee staff was informed that he had the use of a desk in the offices of the corporation. He may still be placing business with the Continental Assurance Co. through the corporation.

The chief counsel of the welfare fund inquiry of the New York Department of Insurance, in a letter dated August 10, 1955, notified the Department of Banking and Insurance of the State of New Jersey of the activities of William H. Croland and the C. J. Simons Corp. To date this subcommittee has learned of no action taken by the New Jersey Department of Banking and Insurance against William H. Croland or the C. J. Simons Corp.

C. THE WASHINGTON NATIONAL INSURANCE COMPANY

1. BACKGROUND

In 1954, this subcommittee received questionnaires from 79 insurance companies on policies issued to jointly managed welfare funds, to unions, or to employers or other entities where the union was known to have had a voice in selection of the carrier. Of these, 70 had group business which was written or already in effect in 1952. The subcommittee analyzed information reported on these questionnaires for the purpose of determining the percentage of retentions, commissions, and administrative fees of the several insurance companies on the business in effect in 1952. The analysis revealed that Washington National of Evanston, Ill., was one of several companies whose average retentions, commissions, and administrative fees ranked consistently higher than the average of the other carriers.

Because Washington National's commissions and fees were higher than is typical of the industry, subcommittee staff members went to Washington National's home office to examine its records and to determine the causes which underlay its high cost ratio. Company officials and employees were very cooperative with staff members who

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conducted the investigation and, without hesitation, produced all of the material or information which was requested. The officials of the company are commended for their excellent spirit of cooperation, and for their invaluable assistance to the subcommittee throughout the entire investigation.

At the outset of the field investigation, it was discovered that the information shown on the questionnaires submitted by the company was not in agreement with the data in its individual case files. Company officials informed staff members that the task of preparing the questionnaires had been entrusted to a temporary employee and that the official who had supervised the project was no longer in their employ. The company prepared revised questionnaires and submitted them to the subcommittee.

In analyzing the data contained in the corrected questionnaires, the subcommittee staff gave consideration to the fact that most of the risks underwritten by Washington National are relatively small, and that acquisition costs and other costs items are correspondingly high. Of the 27 insurance contracts in effect in 1952, which fall within the subcommittee's purview, 16 had annual premiums of less than $5,000, 3 others commanded premiums of between $5,000 and $10,000, and in no instance did annual premiums exceed $50,000.

Nevertheless, as will be shown later, the differences in charges and costs which are set out below cannot be attributed in their entirety to the small size of the insured groups.

	Percent of billed premium	
	Washington National	70 companies
Billed premium	100.0	100.0
Incurred claims	63.4	79.5
Experience rated refund	7.4	8.0
Commissions	5.5	3.4
Service fee	5.5	.9
Remainder	18.2	8.2

2. THE COMPANY

Washington National Insurance Co. is a legal reserve company organized in 1911, licensed to do business in 47 States (New York excepted) and in Canada. It writes both ordinary and group life and accident and health policies. Reportedly, it insures more teacher groups than any other carrier in the United States. It writes a substantial amount of group business, exceeding $11 million in premiums in 1954; and has experienced the growth in group business common to the industry. Premiums on group health and accident coverage, only $5,689,000 in 1950, had advanced to $7,302,808 the following year and to $9,658,000 in 1954. However, only a minor proportion of its total group business is in the area of plans subject to collective bargaining.

3. GENERAL FINDINGS

The inquiry at Washington National disclosed situations involving two brokers, Harry D. Epstein, of Newark, N. J., and Dash & Love, of Philadelphia, Pa., which warranted further investigation. Washington National had commission arrangements with these agencies

which were decidedly out of the ordinary. Consequently, staff members conducted further investigations into the activities of these brokers in Newark and Philadelphia, discussed below.

In addition to the irregularities referred to above, the investigation uncovered instances of policyholders not being treated alike,[66] of undeserved administrative allowances, and of contingent commissions to agents which operated against the interests of the beneficiaries. These departures from normal insurance practices are discussed in detail below.

(A) REMUNERATION OF AGENTS

As in other underwriting companies, agents of Washington National receive compensation for their sales efforts on a straight commission basis. On occasion, when duties other than selling and normal servicing of the accounts have been assumed by the agent, he receives an administrative or service fee in addition. With respect to a few of its producers, Washington National also proffers a contingent commission; the contingency in this instance is the extent to which claims fall below a stipulated percent of premium. These elements of agent compensation are discussed in a subsequent section.

(1) *Commissions and service fees*

For the purpose of computing commissions payable to its brokers and agents, Washington National applies the following so-called standard decremental scale to the great majority of its group cases:

Premium	1st year	9 renewal years
	Percent	*Percent*
Up to $1,000	20	5
$1,000 to $5,000	20	3
$5,000 to $10,000	15	1½
$10,000 to $20,000	12½	1½
$20,000 to $30,000	10	1½
$30,000 to $50,000	5	1½
$50,000 and over	2½	1

Until 1953, the above scale was applied to each separate coverage within the policy, i. e., life, accident and sickness, hospitalization, surgical, medical, etc. Except for those cases placed on its books prior to this change, the present company practice is to compute commissions separately on life insurance premiums and to combine all casualty premiums for commission purposes. Ralph C. Knoblock, second vice president, group department, testified in hearings before the subcommittee that the principal reason which forced Washington National to change its policy with respect to paying separate commissions was the company's excessive losses in the writing of group hospital and surgical expense. He also stated that the company lost some of its group business as a result of this change because "* * * Some agents naturally objected to the change in our practice and placed their group business with other companies." [67]

In some cases the company has deviated from its standard decremental commission scale. For example, Harry D. Epstein, 29 Eliza-

[66] Hearings, pt. 3, pp. 1252–1253.
[67] Ibid., p. 1256.

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beth Avenue, Newark, N. J., receives a flat 5-percent renewal commission rather than the graded 5 percent on all group business he writes for Washington National. Earl Liever, a broker in Los Altos, Calif., receives a flat 5 percent on renewals.[68] Company officials justified the departure from the standard decremental scale in these two instances on the basis that the brokers incurred additional administrative expenses in connection with extra work they performed. The subcommittee, however, ascribes this deviation from standard procedure to the apparent purpose of placating favorite brokers. On the other hand, staff members discovered one case in which the agent agreed to accept reduced commissions computed on a 15-percent graded decremental scale so that the company could write the business.

Washington National also pays an overwriting commission, which it calls a "service fee," to its general agents, for business obtained through agents or brokers recruited and trained by the general agents. The fee scale is graded decrementally. It provides a fee of 2½ percent of premiums up to $50,000 for the first policy year, and 1 percent of premiums for the 9 renewal years. On premiums of $50,000 and over the fee payable is 1 percent of premiums for the first policy year, and one-half of 1 percent of premiums for the 9 renewal years.

(*2*) *Contingent commissions*

Washington National has informal written agreement (letters) with 2 insurance brokers, Harry Epstein, of Newark, N. J., and Dash & Love, of Philadelphia, whereby they may receive up to 10 percent of the earned premium as added compensation or commission, over and above their regular commission. This 10-percent administrative fee, as it is sometimes called, is wholly contingent upon favorable claims experience and is deducted from the dividend or "bonus" which would normally be paid to the policyholder. Mr. Knoblock testified that his company does not have this arrangement with any of its other agents or brokers and that Washington National feels both Epstein and Dash & Love "have done an outstanding job in administering the groups which they have." [69]

Under date of November 21, 1955, the subcommittee received a letter from Cyril D. Smith, agency supervisor for Washington National. This letter, introduced into the record, set forth the total premium volume represented by group cases on which Harry D. Epstein was the broker of record as $510,505.54. Epstein's regular commissions totaled $48,414.44, or 9.5 percent of the premium. Under the 10-percent contingent fee arrangement, he received an additional $13,737.02, or 2.5 percent of the premium. Taken together, the amounts received by Epstein total $61,151.46, or 12 percent of the premium.

The letter states the total premium for all group cases on which Dash & Love was the broker was $481,201.75. The firm's commissions totaled $42,599.79, or 8.8 percent of the premium. The total paid to Dash & Love pursuant to the 10-percent contingent fee arrangement amounted to $22,448.25, or 4.7 percent of the premium. Thus, the total amount received by Dash & Love was $65,008.04, or 13.5 percent of the premium.

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[68] Correspondence in files of Washington National Insurance Co., memorandum of T. W. Schmidt dated May 21, 1954, re Las Vegas Culinary and Bartenders Group.
[69] Hearings, pt. 3, p. 1256.

The above figures represent all business written for Washintgon National by Epstein since 1951, and by Dash & Love since 1952.

Company officials informed staff members that they felt this additional compensation was justified in these two instances because the brokers were performing work requiring time and expense which would otherwise be a necessary function of Washington National. When asked whether the policyholders in these cases had been notified, or were aware, of the contingent commission arrangements, officials replied that they had received "verbal assurances" from both Epstein and Dash & Love that all interested parties had been notified. Washington National never attempted to verify this, however.

Mr. Knoblock testified that by paying 10 percent additional commission, that obviously adds 10 percent to our expenses and thus reduces the dividend or bonus which is payable to the policyholder. He further agreed that it deprived insured employees of 10 percent of the insurance they could purchase by increasing the net cost to the policyholder. Asked if he considered this a good practice, Mr. Knoblock testified:

> At the time we entered into these agreements with both Harry Epstein and Dash & Love, we had some question about it, but in both cases they assured us that they could do such an effective job of administration that they could almost guarantee that the groups would be profitable groups, and on that basis we agreed to enter into such agreements and it has worked out just as they indicated it would in most cases.[70]

This type of arrangement tends to operate against the policyholder and the beneficiaries under the policy—first, because it increases the net cost of the policy to the extent that a contingent fee is paid; second, because the arrangement has the effect of penalizing the policyholder for good experience, with the reward going instead to the broker.

It is significant that in Washington National's reports to its policyholders, the contingent fees paid to Epstein and Dash & Love were carried as expenses and contingency reserves rather than as extra commissions. Had these commissions been properly labeled and had these statements been uniformly delivered to the policyholders, it would be fair to assume that the arrangements were fully approved by interested parties. This was not the practice, however, and the carrier, in accepting "verbal assurances" from the broker and in not disclosing the arrangement via its bonus or dividend statements, subjected itself to serious question. It is equally debatable, under the circumstances, whether the company actually believed that policyholders knew of these arrangements.

The company has an additional ararngement with Harry D Epstein which is integrated with the 10-percent contingent commission agreement. Under this arrangement, Washington National has set up a special claims account which allows Epstein a credit, or draw, of $350 per month, or $4,200 per year. In effect, the arrangement guarantees the broker a minimum annual return of $4,200. For example, if under the 10-percent agreement, Epstein's cases do not produce an amount equal to $4,200, Washington National will make up the difference. On the other hand, should his income under

[70] Ibid., p. 1258.

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the 10-percent agreement be in excess of $4,200, he then keeps the entire amount.

(3) Recovering contingent commission from policyholder out of dividend already paid

Epstein is the broker on the policy covering the Automatic Coin and Vending Machine Employees' Union, local 1690, 1776 Broadway, New York, N. Y. Washington National files show that the company mailed a dividend direct to the union at the end of the first insurance year and neglected to deduct Epstein's contingent fee, at that time 5 percent of the premium. When Epstein questioned this,[71] Washington National wrote the union business manager, saying that the company had miscalculated the bonus and requesting that the union return $251.94 (5 percent of the premium) which was to be added to the contingency reserve.[72] The union returned the exact amount requested and [73] immediately Washington National transmitted it to Epstein.[74]

Here again, the amount of money involved is small but the procedure is open to question. It is possible, of course, that the union as policyholder in this case actually did know of the contingent commission arrangement between the broker and the carrier although Washington National's letter gives every indication that it did not. In either event, the letter is deceptive inasmuch as the insurance company had no intention of adding this money to its contingency reserves and did not do so after recovering it.

(4) Revising commission arrangements

On a policy covering 2 unions (Culinary Union Local 226 and Bartenders Union Local 165, Las Vegas, Nev.), Washington National agreed to pay commissions on a 15 percent graded first year and 5 percent graded renewal year basis, divided evenly between 2 cobrokers, Earl Liever, Los Altos, Calif., and William Royer, Las Vegas, Nev. At the time the case was written, an agreement between the company and the brokers provided that, if the experience was satisfactory, commissions would be recomputed on a 20 percent graded and 5 percent graded basis. The file showed that the experience proved satisfactory and that the commissions were refigured accordingly. In addition, the renewal commissions were revised so that the company paid the brokers a flat 5 percent rather than 5 percent graded. This illustrates the way in which commission arrangements contingent on claims experience can affect the beneficiaries. Normally, the additional amount paid under the revised commission agreement might have been returned to the group but instead the extra agent compensation increased the net cost (there is no implication that the company restrained the payments of legitimate claims). The file on this same case shows that the unions, through Earl Liever, requested that Washington National lend them $75,000 which was to be secured by a mortgage on a new union office building. The company did so, but it states that the loan was made about 2 years after the group insurance plan was installed and was made strictly on its own merit.

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[71] Letter from Epstein to Washington National dated September 8, 1952.
[72] Letter from Washington National to Frank Calland, business manager, Automatic Machine Service Employees Union, dated September 26, 1952.
[73] Calland letter to Washington National, dated October 7, 1952.
[74] Washington National letter to Epstein, dated October 11, 1952.

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(B) ADMINISTRATION FEES

In each case on which Harry D. Epstein is the broker, Washington National pays an administration fee, amounting to 5 percent of the premium, to one or more individuals who are identified as union officials. Epstein designates the administrator who is to receive the fee. Provision for the payment of this fee is accomplished by "loading" the premium an equivalent amount in each case. A complete list, including the name of the administrator, his union affiliation, the amounts he received in administrative fees, and the period for which such fees were received has been made a part of the record in the form of a letter dated November 21, 1955, from Washington National over the signature of Cyril D. Smith, agency supervisor.

When asked to explain what functions these individuals were performing in connection with their respective insurance programs to warrant the payment of a 5-percent administrative fee, Mr. Smith told the subcommittee:

> It is my understanding that that man's 5 percent was paid for his work in contacting the individuals within the union, making them conversant with what the insurance program was, receiving and helping them complete their claim forms which that individual would then forward on to Mr. Epstein for review and payment.[75]

In subsequent testimony, Mr. Smith informed the subcommittee:

> * * * you will be interested in knowing that that is no longer done by Washington National.[76]

Staff members were advised by company officials that Washington National now requires a letter of authorization from the trustees of a welfare fund, or other responsible officials, before it will pay an administration fee. In this connection, the general counsel of Washington National told staff members that while his company perhaps has a moral obligation to verify that service is actually being performed by these administrators, it certainly has no legal obligation to do so. He said the unions are the policyholders in most of these cases and presumably know of the arrangements. This suggests that, prior to its recent change in policy, the carrier either failed to recognize or intentionally ignored the possibilities of abuses which can result from such practices.

Two aspects of this practice are most objectionable. First is the impropriety of "loading" the premium by an extra amount in order to provide for payment of the administrative fee. This obviously increases the cost of insurance to the beneficiaries and represents an unnecessary charge to them. Secondly, the device serves as a tool in the hands of the broker, a lure or an additional selling point which he can use effectively in obtaining business. The facts demonstrate that Epstein used this device as a bargaining point. That the amounts of money paid were relatively small does not alter the questionable principle of the arrangement. Investigations disclosed that union officials receiving these fees did very little, if anything, in the way of administration. Since they were instrumental, in most instances, in enabling Epstein to obtain the business, the conclusion is obvious.

[75] Hearings, pt. 3, p. 1261.
[76] Ibid., p. 1262.

The fact that a reputable insurance carrier will accede to the dictates of a broker without first examining the abusive possibilities involved, and that union officials will yield to cheap inducements and thereby deprive the beneficiaries whom they represent of funds available for actual insurance purposes is a potent argument for disclosure.

(C) ALLOCATING PORTIONS OF DIVIDENDS AS RESERVE FOR COMMISSIONS

In three cases on which Epstein was the broker, files at Washington National reflected that the company had computed and paid dividends from which Epstein's contingent fee had been deducted. Prior to the payment of the dividend, a portion of it was set aside as a "reserve" in anticipation that Epstein would ask for revised commission arrangements. Since this did not occur, the files contained notations to forward these "reserves" as future bonus credits. It could not be definitely determined whether the "reserves" were in fact credited to the policyholders (Federal Labor Union Local 23827 welfare fund, Hoboken, N. J.; local 50, Novelty, Metal, and Allied Workers Union of the International Jewelry Workers, New York, N. Y.; and local 305, Playthings, Jewelry, and Novelty Workers Union, New York, N. Y.), although the files indicated that such was the case.

The commission arrangements between Washington National and Epstein are not based on formal signed contracts but on verbal agreements, understandings, and correspondence. The carrier, expecting Epstein to make additional demands for commissions, laid aside a portion of premium in "reserve," for just such a contingency. Had formal commission and fee contracts been in effect, this situation could not have arisen.

(D) TREATMENT OF POLICYHOLDERS

The last section illustrated the manner in which the interests of the policyholder and the employee-beneficiaries can be prejudiced through pyramided premiums, through so-called contingent fees, and through unearned service and administrative fees.

Over and above this sometimes overt dissipation of benefit dollars are internal insurance company practices that lead to inequitable treatment of the lesser informed policyholders.

(1) *Retention and dividend (bonus) policy*

Mr. Knoblock, second vice president of the group department, in his testimony before the subcommittee regarding the retention and dividend policy of Washington National, declared:

> * * * we do not in any contract of group insurance guarantee to any policyholder that we will return any part of the premium. However, it is customary in the group business to make a return of premium, if the claim experience has been favorable.[77]

Further interrogation by the subcommittee elicited testimony to the effect that if and when Washington National feels that a return should be made to the policyholder, a bonus calculated formula (frequently called retention formula) is applied to the individual case in order to calculate the amount of the "bonus." The formula is

[77] Ibid., p. 1249.

drawn up by company actuaries. It consists of various expense and reduction factors which are applied to group policies in accordance with the premium volume and the number of years the policy has been in force.

When asked how large the premium volume would have to be in any particular case before Washington National could consider it for a dividend or refund, Mr. Knoblock replied:

> I would say that if the annual premium were any less than $5,000, we would under no circumstances consider calculating a bonus or dividend.[78]

He explained that in groups involving less than 100 employees it is not customary to pay a bonus or dividend, unless one is requested, because in small groups the experience fluctuates widely from one year to the next. He agreed that to some extent small groups helped carry the cost of insurance of larger groups. However, they also enjoyed the benefits of group insurance for the first time since many companies hesitated to enter the small group field until recent years.

Mr. Knoblock was asked if he meant that the policyholder who goes after a dividend will receive it whereas those who do not will receive nothing. Knoblock replied: "That is exactly what we mean." He agreed that under such a practice rewards accrue to the bolder, more aggressive policyholder. He further agreed that Washington National, as well as many other insurance companies, accords different treatment to individual group cases. Senator Douglas asked whether different treatment is given, depending on the circumstances, to identical groups where all insurance factors are similar and where one group is pushing for a dividend while the other is not. Mr. Knoblock said that in such instances, the ultimate net rate is not the same. He stated, "We have nothing in our contract to indicate that we will make a return." [79] In a very candid statement he said that, if another insurance company was trying to get the business, Washington National would probably calculate and pay a bonus if there was any possibility of retaining that business. He indicated that this practice is fairly widespread throughout the insurance industry.

During Mr. Knoblock's testimony, Senator Douglas told him:

> I want to congratulate you, too, on your frankness in this matter, which helps us very much, because we have had great difficulty in establishing this fact in conversations with numbers of insurance companies. You have rendered, I think, a real public service without being in any sense unfaithful to your industrial group.[80]

(2) *Bonus statements*

As a necessary concomitant to the dividend (bonus) policy of Washington National, the company prepares a bonus statement for each group which is to be considered for a refund of premium. The statement contains figures on the total amount of earned premium, the total amount of claims incurred and paid; reserves for pending, open, and unreported claims, and an item which includes commissions, taxes, expenses, and contingency reserve. After all the computations

[78] Ibid., p. 1251.
[79] Ibid., p. 1252.
[80] Ibid., p. 1255.

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are made. the bonus statement reflects either a bonus credit or deficit, depending upon the claims experience.

This bonus statement, together with the dividend or bonus check, if one is payable, is ordinarily forwarded to the agent or broker of record on this particular group. Occasionally, it is sent to Washington National's group branch office for delivery to the agent or broker. The bonus statement is never sent directly to the policyholder. According to Mr. Knoblock's testimony:

> When you are dealing with an agent or broker, it is customary to handle all matters through the agent or broker. * * * If a bonus is payable and there is a check being sent, we think it is an especially good time for the agent or broker to capitalize on the situation, and to help keep out competition, by keeping the name of Washington National before the policyholder. It is a means of selling * * * By the same token, if there is a bonus deficit and we have had an abnormally high claim loss ratio, then it is up to the broker to explain to the policyholder why no bonus is available, and to pave the way for a possible request on our part for a premium adjustment.[81]

Mr. Knoblock further said—

> I would say that the majority (of insured groups) are controlled by the agent or broker. I am speaking now of groups of any size.[82]

He added, under questioning, that he felt this was true of both employer and union group insurance plans.

Prior to the subcommittee's investigation of Washington National, its officials had assumed that the bonus statements sent to their agents or brokers were delivered to the policyholder in all instances. Such was not the case. The significance attached to these bonus statements was developed more fully under the separate heading entitled "Contingent Commissions."

(*3*) *Withholding dividends where policy termination is probable*

In two cases (Retail Clerks International Union, Local 1262 Welfare Fund, Newark, N. J., and Furniture, Household and Credit Employees' Union, Local 34, Newark, N. J.), because information indicated that these policies were to be canceled, Washington National withheld dividends (bonuses) which had already been computed and forwarded to their group field supervisor for delivery to the policyholder. In the case of local 1262, the "bonus" withheld amounted to $4,495.98. A "bonus" of $2,658.24 was withheld in the local 34 case. The subcommittee holds that once a group has earned a dividend through favorable claims experience, it is entitled to the return even though cancellation of the policy is probable.

(*4*) *Charging cost of union advertisements to future bonuses*

On three occasions, Washington National agreed to pay a portion of the cost of advertisements which were to appear in souvenir journals or testimonial booklets of insured union groups. These costs were charged, in each case, against future bonuses payable to the groups. (Culinary Union, Local 266, and Bartenders' Union, Local 165, Las

[81] Ibid., p. 1250.
[82] Ibid., p. 1256.

Vegas, Nev.; Boot and Shoe Workers' Union, Philadelphia, Pa.; and United Bakery, Confectionery, Cannery, Packing and Food Service Workers Union of New Jersey, Local 262, Newark, N. J.)

The amount of money involved in these instances is small. Nevertheless, the subcommittee seriously questions the practice of charging costs of Washington National's complimentary advertising or testimonials against the insurance experience of welfare funds or insured groups. Such expenses seemingly should be charged against the company's advertising budget.

4. FIELD INQUIRIES

In an effort to determine at the plan level the effect of such practices as paying extra commissions to brokers out of dividends, paying administrative fees to union officials and having special arrangements with seemingly favored insurance brokers, the subcommittee conducted field inquiries in Newark, N. J., of the business controlled by Harry D. Epstein, and in Philadelphia, Pa., with respect to the business of Dash & Love.

(A) PHILADELPHIA INVESTIGATION

(1) *Amalgamated Local 195, Meat Cutters and Butcher Workmen of North America*

This union has some 7,000 members employed in various segments of the meat industry in the Philadelphia area, i. e., hotel and restaurant supply houses, beef boners, packing and slaughter houses, poultry houses and retailers. The numerous employers in the industry are, for the most part, members of employer associations. Collective bargaining by local 195 is carried on with four such employer groups. The local's welfare program consists of: (1) A medical center which provides medical care to all covered employees; and (2) life insurance, accident and sickness coverage, hospitalization, etc., for employee-members through group insurance contracts with various insurance carriers. These are noncontributory programs and are bargained on a benefit basis with respect to the insurance and on a fixed contribution by the employers with respect to the medical center. With the exception of three groups under this arrangement, the employers reportedly select their own carriers and hold the insurance policies.

According to Vincent LoCasale, secretary-treasurer of Local 195, 5,800 to 5,900 members of this union are covered by group insurance plans underwritten by several commercial carriers. Some 800 members are covered by 3 policies issued to local 195 by the Washington National Insurance Co. and 5 separate policies issued to employers. The broker on each of these eight policies is the firm of Dash & Love. In interviews with subcommittee staff members LoCasale said he was a lifelong friend of J. Warren Dash, a partner of this firm, that the firm was utilized as this union's insurance consultant and that it had placed fire and auto insurance for the union itself.

In 1948 or 1949, according to LoCasale, local 195 first obtained insurance programs for its members through negotiations with employers. These were to be contributory plans, the employers paying two-thirds of the cost and the employees one-third. The union

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obtained informal bids from about 15 insurance carriers and selected the Continental Casualty Co., Chicago, Ill., on the basis of lowest net costs. Continental's bid had been submitted by Dash & Love who subsequently became broker on the policy.

In 1950, the plan was made noncontributory, at which time the employers insisted upon choosing their own carriers. A clause to this effect was inserted in the collective bargaining agreement, and many employers insured their programs through a number of different underwriters. However, the 800 or so members referred to above continued to be covered by Continental.

The multiple policies in effect for members of the same union was a consequence of the Pennsylvania insurance regulation prescribing group policies for groups of less than 25 workers. Employees of small companies engaged in similar activities were banded together so as to qualify for group protection under Pennsylvania insurance regulations. Since the union was the only centralized administrative factor, it became the policyholder on three different policies. J. Warren Dash told subcommittee investigators in October 1954 that local 195's insurance was handled by Continental Casualty Co. under a "franchise" contract rather than the usual group insurance contract and that three separate groups covering members of the same union had been formed along the lines followed in collective bargaining, that three different employer associations were involved and that each group had different coverages. Dash further stated that separate policies were issued to employers as soon as they had more than the required 25 employees but that his firm did not get first year commissions when employers were split out from one of the Amalgamated groups.

Both LoCasale and Dash advised that since experience proved adverse in this case, Continental demanded a premium rate increase. This took place at the end of the third insurance year, according to Dash. As a result, all these groups were taken from Continental and insured with Washington National, which offered to take the cases at lower rates.

Information of record does not support the foregoing statements. In questionnaires received from Continental Casualty and Washington National, the following data was submitted concerning local 195:

(*a*) *Continental Casualty Co.*—Continental issued a group policy to local 195 January 1, 1952, providing accidental death and dismemberment and temporary disability cash benefits (accident and health insurance) at a monthly premium of $2.60. Forty-nine contributing employers were listed. The S. Z. Goodstein Corp., Drexel Building, Philadelphia, a general agent for Continental, listed as agent on the case, was paid 20-percent flat first year and renewal commissions and a 5-percent fee. This case was canceled January 1, 1953, exactly a year after it began.[83] The following experience was shown:

Premium: $44,603.
Commissions: $8,920.60 (20 percent).
Fees: $2,230 15 (5 percent).
Incurred claims: $32,314.35 (72.4 percent).
Dividends: None.
Retention: $12,288.65 (27.5 percent).

[83] Questionnaire from Continental Casualty Co. re Meat Cutters & Butcher Workmen of North America, Amalgamated Local 195.

Inquiry disclosed that Dash & Love was the broker in this case and received commissions directly from Goodstein. The Goodstein firm is presently attempting to determine from its files the circumstances surrounding the cancellation of the case and other related details. It can be seen, however, that (1) the case did not run 2 or 3 years under Continental and develop adverse experience; (2) there was no indication that adverse experience caused Continental to demand a rate increase; and (3) the case was canceled by the contracting party—not Continental.

(*b*) *The Washington National Insurance Co.*—The questionnaires returned by Washington National, together with material obtained from files of the carrier, provide the following information:

Of the original 40 contributing employers listed in the Continental group policy, 17 are presently insured under 3 separate group policies issued to the union by Washington National. These are designated by the carrier as units 1, 2, and 3. In addition, 4 of the original 49 employers are now carried under separate policies issued by Washington National. Still another separate policy was issued by Washington National to an employer not included in the original 49. Dash & Love is the broker in each of these cases. Thus, eight separate policies now exist in place of the single policy formerly carried by Continental. Commissions are paid separately on each of these policies, obviously increasing the commission factor considerably. (It should be noted that 12 new employers not included in the original 49 have been added to the 3 groups for which the union holds policies.)

Of these 8 policies, 3 were issued on the same day that the Continental policy was canceled. The remaining five were issued shortly before or soon after that time. Washington National insured local 195, unit 1, on December 1, 1952, unit 2 on January 1, 1953, and unit 3 on May 1, 1953. Two of the 5 employer policies were issued November 1, 1952, 2 on January 1, 1953, and the 5th on November 1, 1953. Records indicate that local 195, unit 1, and 2 of the 5 employer groups, were insured for a period of time under both Continental and Washington National.

The benefits and premium rates were different under each of these policies as shown below.

(1) Unit 1, local 195 (carried by Continental from January 1, 1952, to January 1, 1953; by Washington National from December 1, 1952 to date.) Coverages and premium rates of inception under Washington National:

Coverage	Effective date	Monthly premium	Annual premium
Life insurance	Dec. 1, 1952	$2.04	$24.48
Accidental death and disability	do	.20	2.40
Accident and health	do	1.99	23.88
Total		4.23	50.76

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(2) Unit 2, local 195 (carried by Continental from January 1, 1952, to January 1, 1953; by Washington National from January 1, 1953, to date). Coverages and premium rates in inception under Washington National:

Coverage	Effective date	Monthly premium	Annual premium
Life insurance	Jan. 1, 1953	$0.99	$11.88
Accident and health	do	2.60	31.20
Total		3.59	43.08

(3) Unit 3, local 195 (carried by Continental from January 1, 1952, to January 1, 1953; by Washington National from May 1, 1953, to date). Coverages and premium rates at inception under Washington National:

Coverage	Effective date	Monthly premium	Annual premium
Life insurance	May 1, 1953	$1.01	$12.12
Accidental death and disability	do	.18	2.16
Accident and health	do	1.99	23.88
Hospitalization (employees)	do	1.17	14.04
Hospitalization (dependents)	do	3.41	40.92
Surgical (employees)	do	.50	6.00
Surgical (dependents)	do	1.82	21.84
Total		10.08	120.96

According to Washington National's questionnaire, the union's executive board was included under this unit. According to the carrier's files on this case, dependent coverage at the outset was written only on the union's executive board. As of November 1, 1954, according to these same files, hospitalization and surgical benefits were increased for members of the executive board and their dependents only. The file states: "Employers pay entire cost of program." [84]

The separate policies issued to the five employers also provide different coverages and premium rates.

According to a letter from Goodstein, the general agent (set forth in detail later in this section), Dash & Love, on the local 195 case, received a commission of 17.5 percent flat on first year and renewal premiums, and Goodstein, as general agent, received an additional 7.5 percent. The subcommittee's questionnaire from Continental shows that the total retention for the 1 year the policy was in effect amounted to 27.5 percent of premium. With 25 percent of this representing commissions and fees, the carrier's net retention was only 2.5 percent of total premium. These commissions and service fee arrangements are unusually high.

Dash & Love's commission arrangements with Washington National are especially significant. This broker received commissions based separately on each policy issued by Washington National to the various units and employers whose programs covered local 195 members. The commissions were computed separately, using the decremental scale, on each group and on separate coverages within each group.

[84] Washington National's Installation Summary effective date, May 1, 1953, Amalgamated Meat Cutters Local 195, Hotel and Restaurant Division, Unit 3.

Had the premium for all groups been combined for commission purposes, the result would have been to reduce substantially the amount of commissions paid. Even more important was the contingency commission arrangement previously described by which Dash & Love received 10 percent of the gross premium on each case where the experience was sufficiently favorable to produce a dividend. This 10 percent was deducted from whatever dividend became payable and returned to Dash & Love in addition to their regular commissions. The effect of the arrangement was to reduce any dividend earned by the various groups as a result of favorable claims experience by an amount equaling 10 percent of gross premium. If the dividend was insufficient to equal that amount, as it was in some instances, then a lesser percentage was paid to Dash & Love with no dividend being paid to the group. The remainder of the dividend, if any, after the 10 percent additional commission had been deducted, was then paid to the insured group.

In 1954, following the first insurance year of units 1, 2, and 3 under Washington National, dividends were paid to one of the units and additional commissions were paid to Dash & Love under the contingency arrangement as follows:[85]

	Dividend paid	Extra commission paid
Unit 1	None	$183.79
Unit 2	None	297.30
Unit 3	$202.77	772.66

The following data, compiled from questionnaires submitted by Washington National and from their files, reflect the first-year experience on 5 of the 8 policies, including the 3 union groups. The tabulation includes the contingent commissions paid to Dash & Love. The percentages express the relation of the individual item to billed premiums:

Policy	Premium	Fees	Commissions	Contingent commission	Claims	Dividends	Gross retention	Net retention
		Percent	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*
A	$7,726	0	20	10	28.5	2.6	69	39
B	3,528	2.5	20	8.5	28	0	72	41.3
C	2,708	2.5	20	6.8	19.5	0	80	51.4
D	3,378	2.5	20	----------	27	0	73	50.5
E	1,905	2.5	20	----------	30	0	69	46.7

It can be seen that the return to the beneficiaries on each dollar of premium (in claims and dividends) in these cases was 31 cents, 22 cents, 19 cents, 27 cents, and 30 cents, respectively, the remainder in each case being consumed by commissions, fees, and insurance company retention. It cannot be said that the welfare of these beneficiaries was improved by the switch from Continental to Washington National. The change appears to have been more advantageous to the broker through his special arrangements with the latter carrier.

Neither LoCasale, of local 195, nor 3 of the 5 employer policyholders insured through Washington National knew of the extra commis-

[85] Washington National letter to Dash & Love, dated September 17, 1954.

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sion arrangements between the broker and the carrier. They were likewise unaware of the broker's regular commission arrangements or the amount of insurance company retention on their policies. They had never seen a statement of the experience on their policies despite the fact that Washington National annually transmits such statements to Dash & Love. An official of 1 of the 5 employer-policyholders who is comptroller of his firm said he had never heard of Dash & Love, that to his knowledge there was no broker presently involved on the case, and that all his company's dealings were with Washington National's local group insurance supervisor, a Mr. Edward Butcher. An official of another of these companies told staff members the local 195 insurance program arose out of association bargaining and was presented to his company as a "package" with Dash & Love as broker and Continental as the carrier. His first and only knowledge of the change in carriers came when Mr. Butcher called at his office to obtain personnel information for Washington National's records. This individual stated he had never seen either Dash or Love. A third employer said he bargained independently with local 195 and that his insurance program had been insured with Washington National at the "suggestion" of the union, with Dash & Love as the broker. He further stated that Dash & Love had occasionally called at his office to check specific claims information.

Investigation determined that claims in all these cases are processed and paid through Mr. Butcher's office rather than through that of the broker.

(2) Boot and Shoe Workers Union, Local 141

This union has insurance programs with some 35 individual employers in the eastern Pennsylvania area which have been negotiated on a benefit basis with the employers agreeing to provide specified coverages set out in the bargaining agreement through insurance companies of their own choice. About half of the 35 employers have insured their programs through various well-known commercial carriers. Seventeen employers provide benefits through Washington National on policies issued to the union which also carry the names of the individual employing firms, allegedly for identification purposes only. Dash & Love is the broker on this program. There is no welfare fund involved. Employers pay the insurance premiums direct to the carrier which then provides the benefits as established in collective bargaining. The plan is entirely financed by the employers.

The Continental Casualty Co., from August 1, 1950, to December 31, 1951, insured this same plan under a franchise agreement, rather than a group-insurance policy. Again, due to inaccessibility of records pertaining to the case, this carrier has been unable to furnish data requested by the subcommittee; however, it has been established that Dash & Love was also the broker of record with Continental but all commissions were paid by the carrier to its general agent in Philadelphia, S. Z. Goodstein. Commissions to Goodstein were 40 percent of first year premium and 35 percent of renewal premium. Adverse experience, according to Continental, caused a reduction in renewal commissions to 25 percent on August 1, 1951, to which the agent objected. Subsequently, negotiations were entered into looking toward reinstating original commissions contingent on good future experience but

the case was terminated before any arrangements could be made.[86] J. Warren Dash informed staff members that his firm's commissions as broker in this case were originally 17½ percent flat and that they were adjusted through subsequent negotiations to 22½ percent flat.

(There is inserted below a self-explanatory letter received from S. Z. Goodstein & Co., general agents from the Continental Casualty Co., in Philadelphia, Pa. This letter was submitted in response to the staff's request for information this agency's file with respect to the Boot & Shoe Workers Union and the Meat Cutters and Butcher Workmen Union, Local 195, together with the background of these cases. While the information is sparse, it has some bearings on the statements made by J. Warren Dash, the broker.)

CONTINENTAL CASUALTY CO.,
S. Z. GOODSTEIN & CO., INC.,
GENERAL AGENTS,
1413 Walnut Street, Philadelphia 2, Pa.

Re Boot and Shoe Workers Union, Meat Cutters and Butchers Union.

Mr. BLAKE TURNER,
Staff Member, United States Senate,
Committee on Labor and Public Welfare,
Subcommittee on Welfare and Pension Funds,
Washington, D. C.

DEAR MR. TURNER: This is in reply to your letter of December 8, 1955, with reference to the above-captioned cases for the period of January 1, 1952, to January 1, 1953.

BOOT AND SHOE WORKERS UNION

1. The commission paid to Dash & Love as brokers, was 17½ percent of the premium collected. It would be extremely difficult, if not impossible to give an answer as to total moneys involved because our records for this period do not appear to be complete.
2. The commissions paid on all coverages was the same.
3. Commissions were not renegotiated.
4. Our agency received commission of 7½ percent of the premium collected. My comment in item No. 1, as to the availability of a dollar-and-cents figure applies here as well.
5. As brokers, Dash & Love:

(*a*) Assisted in rate calculation.

(*b*) Prepared proposals for the groups concerned, based on information and rates supplied by our office.

(*c*) Aided in collecting delinquent premiums. Contacted the employers upon notification from our office that our efforts to make collection had not been successful.

(*d*) Arranged installation and designed and instituted all necessary procedures for use of employers.

(*e*) Aided in service and claims negotiations upon request.

(*f*) Maintained regular contact with clients and our office to assist in efficient administrative functioning.

(*g*) No additional fees or commissions were paid for these services.

[86] Letter from Continental Casualty Co. to subcommittee dated November 21, 1955.

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The same information as supplied above.

We have no information relative to the circumstances surrounding the original placements of these cases. We were merely requested by the brokers to supply rates for proposed coverage and were later informed that the cases were written.

It is our recollection that the cases were terminated after notification of pending rate increase upon renewal was discussed. The brokers did not feel that the employers would accept the rate increase.

We have no figures showing the experience on these cases but using the figures supplied in your letter, it appears that Continental was left with only eight-tenths of 1 percent. The figures which you quoted showed gross collections of $44,603, commissions and fees of $11,150.75, claims of $32,214.35. Hence against collections of $44,603, there were payments aggregating $43,365.10 representing 97.2 percent of the premium. From the remaining 2.8 percent, Continental paid 2 percent Pennsylvania premium tax, leaving them with only eight-tenths of 1 percent. Obviously, this explains the need for an increase in premium rate.

We can find no listing of employees covered.

In our original conversation, you had asked if any of the individual groups had remained on the books after the termination of the case per se. I have checked into the matter and find that none did.

I hope this information is to your satisfaction.

Very truly yours,

S. Z. Goodstein & Co., Inc.
Marvin N. Demchick,
Secretary-Treasurer.

Questionnaires of Washington National disclose that 12 of the present 17 employers they insure were issued policies effective January 1, 1952, the day following that on which Continental ceased to be the carrier. The remaining 5 were added later, 2 in 1952, 2 in 1953, and 1 in 1954. The coverage, premium rates and benefits differ in each of these 17 programs; however, all beneficiaries are members of the same union.

Again, as in the local 195 instance, Washington National pays Dash & Love separate commissions on each of these 17 individual units and, according to questionnaires submitted by the company, also pays separate commissions on each individual coverage within each of the employer units. The effect of this is illustrated in a letter from the insurance company to Dash & Love dated February 27, 1954, which contains the statement:

> Had we lumped together the premims paid on each case and graded the commissions accordingly, then commissions paid would have been greatly reduced during the first year.

According to a tabulation of the carrier's questionnaires on the policies issued in 1952 only, the first-year premium totaled $59,691.25 and commissions reportedly paid were $11,506.11 (19.3 percent of premium).

Mr. Knoblock testified in this connection that:

> At the time we took that group (Boot & Shoe Union) over for Dash & Love, they indicated that in order for us to be considered by them they would want us to pay commis-

sions separately on each particular shoe company. We agreed to it, and the only reason we agreed to it was the fact that we were advised that each of these shoe companies was in effect going to be written separately and in fact at different intervals. Now, I can't tell you at what intervals they were written, but I should say the effect was that we could under the circumstances consider each one as a separate group, and for that reason we agreed in that instance to pay separate commissions on the coverage written for each of these shoe companies.[87]

Mr. Knoblock pointed out elsewhere in his testimony that:

> * * * sometimes a particular broker or agent in controlling a group is going to be the one who is going to designate which insurance company is going to get that risk, and the fact that a person does exercise such close control over a particular group may warrant the payment of some amount in addition to the regular standard commission.[88]

Senator Allott asked whether the carrier had to pay the broker greater commissions, in other words, to obtain the business in some instances. Mr. Knoblock replied: "In the case of this Boot & Shoe Union that is what was done." [89]

Dash & Love also have a contingent commission arrangement in effect with Washington National in this case similar to that of local 195, under which they receive up to 10 percent of earned premiums as additional commission over and above the broker's regular commission if experience warrants it.

According to Washington National's file, dividends were paid in the Boot & Shoe Union cases for each of the first three insurance years, from which extra commissions were deducted and paid to Dash & Love as follows:

Policy year [1]	Total dividend	Deducted and paid Dash & Love as extra commission	Paid to policyholder
Dec. 1, 1951–Dec. 1, 1952	$15,649.37	$6,322.16	$9,327.21
Dec. 1, 1952–Dec. 1, 1953	8,021.83	6,982.30	1,039.53
Dec. 1, 1953–Dec. 1, 1954	6,202.67	5,000.00	1,202.67
Total	29,873.87	18,304.46	11,589.41

[1] Policy year according to Washington National's files.

Thus, the broker received in extra commissions 61.2 percent of the sum which would otherwise have been payable to the policyholder as dividends had the arrangement not been in effect. Neither the union nor the employers involved in these programs knew of these commission arrangements. Washington National officials informed staff members that they received "verbal assurances" from Dash & Love at the time this arrangement was originally made that the insured

[87] Ibid., p. 1255.
[88] Ibid., p. 1259.
[89] Idem.

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groups were aware of and had approved it. In testifying before the subcommittee, Mr. Knoblock said:

> I think that, in accepting verbal assurances from both Dash & Love and Harry Epstein that the unions knew of the commission arrangement which we made, we were very probably being naive in not getting something in writing.[90]

An even more unusual arrangement is that which Dash & Love had with the boot and shoe workers union through Michael Tesoro, eastern representative. J. Warren Dash testified that sometime after Washington National became the insurance carrier but prior to the end of the first policy year, Dash & Love agreed "at Tesoro's request" to assume responsibility for all administration and servicing of the policy. Mr. Dash suggested that his firm receive half of any dividend which might develop in the case. Tesoro agreed to this. This, of course, was in addition to the broker's regular and extra commissions paid direct from the carrier. Asked if he had informed Tesoro of his contingent commission arrangement, Mr. Dash testified he had not.

Mr. Tesoro produced checks made payable to Dash & Love drawn on a special account which he maintains in his own name as eastern representative of the boot and shoe workers union. An examination of these reflected the following:

Check dated	Amount	Dividend to union
January 28, 1953	$4,663.60	$9,327.21
April 26, 1954	519.76	1,039.53
March 15, 1955	601.33	[1] 1,202.67
Total		11,569.41

[1] For further explanation of this last "dividend," see p. 250.

The arrangement which Dash & Love had with Tesoro was not known to Washington National. Mr. Knoblock testified that—

> The Washington National Insurance Co. had absolutely no knowledge of that agreement between Dash & Love and whoever the individual was.

He added,

> * * * I think also that this 50 percent of the dividend certainly is a lesson to us and shows that these things have got to be checked very carefully in the future before any contracts of this kind are entered into.[91]

Thus an amazing situation existed in which a broker was able to get unusually favorable basic commission arrangements with the carrier, plus 50 percent of the remaining dividend paid the union.

There is no formal agreement between the individual employers and the union in this case as to the disposition of insurance dividends. It would seem logical that dividends would either be shared equally by the employers and the union or at least utilized in furtherance of the program by joint agreement. Actually, all dividends, less contingent commissions to the broker, were paid by Washington National directly

[90] Hearings, pt. 3, p. 1260.
[91] Hearings, pt. 3, p. 1260.

to the union. Correspondence in the carrier's files indicates that there was a deliberate attempt to hide from the employers the fact that dividends were paid.

An exchange of correspondence between Edward Butcher, Washington National's group supervisor in Philadelphia, and Mr. C. D. Smith, the company's agency supervisor in Evanston, is pertinent. Mr. Smith sent Butcher a letter dated January 23, 1953, enclosing an experience statement on this case for the first policy year. A portion of the letter stated:

> For your personal information, there is a total bonus (this company's term for dividend return to policyholder) due of $15,649.37. However, in accordance with our agreement with Dash & Love, we are issuing a separate check in the amount of $6,322.16 to Dash & Love for additional commission for their handling of the group. You will recall that Dash & Love receive 10 percent of the earned premiums as extra commission, said 10 percent being deducted from the bonus payable.[92] We have issued two separate checks, one for $9,327.21 payable to the Boot and Shoe Union, and the other, as above, payable to Dash & Love. * * *

Mr. Butcher acknowledged receipt of the above with a memorandum dated January 26, 1953, which stated:

> I delivered the two checks on the above group to Dash & Love, and they will see that the union receives their check by today or tomorrow. The money that the union receives is kept by the boot and shoe union in a special fund that they have set up. It is also important that no announcement of this dividend be made to any of the insured companies. * * *[93]

Mr. Butcher informed staff members that this warning to his home offices resulted from instructions to that effect which he had received from Dash & Love.

Mr. Tesoro frankly admitted he had never advised the employers of the dividends paid, and that they had never asked about them. He said the dividend money (excluding his 50-percent payments to Dash & Love) is used for union organization expense. At one time or another, five different business agents have been paid in varying amounts from this account.

In its questionnaires, Washington National listed dividends as having been paid in many of these 17 separate employer units (each case or unit is treated separately for experience-rating purposes, dividends, commissions, etc.). Staff members interviewed individuals at two of these companies where the questionnaires indicated dividends had been paid. In neither case were the employers aware that dividends had been paid nor had they received them, of course. They did not know what the commission arrangements were on the case or that extra commissions were paid. They had no idea what the insurance company retention was and had never seen an experience statement on their programs. It was further apparent that such questions had never occurred to them and that they were not too con-

[92] Earned premiums for the year totaled $63,221.60.
[93] Memorandum from Edward J. Butcher to Washington National dated January 26, 1953.

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cerned about it. As one of these two employers put it, he "pays the premium and forgets about it." He stated that as long as the rates are fair, the program adequate, claims handled satisfactorily and the union and his employees are happy, why question anything. He said he had never asked for an experience statement from Washington National.

When employers abdicate their resonsibilities to this extent, it is not at all surprising that the broker, the union, and the insurance carrier can operate without restraint.

In early 1955, following the third complete insurance year on this case, Mr. Smith wrote Mr. Butcher at Philadelphia advising that this case had developed a bonus of $6,202.67. He pointed out, however, that due to the 10-percent extra commission arrangement with the broker, this entire amount would be due Dash & Love. He asked whether it would be necessary to prepare a bonus statement breaking down the $6,202.67 percentagewise in accordance with premium received from the various companies. His letter continued:

> This is necessary where a return is being made to the companies; however, because Dash & Love will receive the entire amount it does not seem feasible to go through all the extra motion unless Dash & Love are going to return $6,202.67 to the group.[94]

By letter dated March 2, 1955, Smith wrote Dash & Love as follows:

> Enclosed is the bonus statement on the above group [boot and shoe union] together with dividend checks as requested in your telephone conversation, 1 check to the boot and shoe union for $1,202.67 and 1 check to you for $5,000.

It is particularly significant that the enclosed bonus statement showed a total bonus (dividend) payable of $6,202.67. Had the statement been delivered to the union it would have become aware of the contingency commission arrangement between Washington National and Dash & Love. Had it been delivered to the employing companies, they, too, would have discovered, of course, that dividends were being paid in this case. It hardly need be added that the statement was not so delivered. Furthermore, of the $1,202.67 which the broker saw fit to let the union receive, he recovered $601.33, or half, under his arrangement with the union about which the carrier allegedly knew nothing. When questioned by staff members on this, Mr. Dash said the $1,202.67 given to the union was "probably a psychological procedure," and added that, "We wouldn't have had to do it." When asked why he did not obtain the same 50 percent agreement with the meatcutters union, Mr. Dash said, "It didn't occur to us; we missed the boat." Later, in testifying at the subcommittee's hearings, he claimed he had made this remark facetiously and that there was a vast difference in the two situations.

Mr. Dash told staff members his firm does not deliver Washington National's bonus statements, that they feel no obligation to do so and that the groups have expressed no interest in them. (When asked whether he was surprised to learn that the company's bonus statements were not being distributed to policyholders, Mr. Knoblock stated

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[94] Washington National letter to Edward J. Butcher dated February 23, 1955.

he had learned this about a month prior to the subcommittee's hearings, at which time he was surprised. He said the letter transmitting the statement usually contains a request that it be delivered to the proper individual.) Dash also readily admitted that these groups are not aware of either his basic or his contingency commission arrangements with Washington National. Under these circumstances, it is little wonder that such outrageous practices continue and flourish without detection.

As a final indication of the favored position this broker enjoys with Washington National, reference is made to the following: The carrier insures a group known as the Delicatessen and Cafeteria Workers Union, local 232, at 920 Walnut Street, Philadelphia. This case was effective April 1, 1952. The carrier's files reflect that effective July 1, 1953, the casualty premiums on this group were increased by 11 percent. This increase was not due to loss ratios (poor claims experience) nor was it to be retained by the company. The entire increase, less taxes, was to be returned to Dash & Love as a service fee. This raised the basic monthly premium from $4.47 to $4.96.[95] Unfortunately, lack of time prevented the staff from determining what representations were made to this group as to the cause of the increase; however, Mr. Dash, then questioned about it, insisted the raise was due to adverse experience, a contention that is not borne out by the facts.

The extra commissions to Dash & Love, which in the carrier's records are often referred to as "administrative fees," were justified by Washington National officials and the broker on the basis of extra servicing which Dash & Love perform on all their cases. Investigation disclosed that all claims in Dash & Love's cases are processed and paid through Washington National's Philadelphia group office by Mr. Butcher, a salaried employee of the carrier. It was further developed in contacts with officials of both the employing concerns and unions involved that Dash & Love seemingly do very little, if anything, in the way of extra servicing which would entitle them to extra commission. For example, Tesoro stated he used the broker chiefly to intercede with Washington National when he could not get satisfaction from Butcher on claims, but that he deals mainly with Butcher on insurance matters. He said he sometimes consulted the broker often, sometimes not at all for long stretches, and that he had not used them at all in the past 6 months. LoCasale told staff members that Dash & Love "sells the insurance—period." Later at the hearings he amended this, saying:

> When I received this summons to appear, I wanted to make sure I had all the facts straight. I checked with the girl who handles health and welfare and I asked, "What procedure do you go through when there is a claim that comes to the office from one of the members"? She said, "Well, we contact Dash & Love and get the claim forms and we get the forms filled out by the individual member and then forward those to the Washington National for processing." [96]

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[95] Office memorandum dated October 27, 1953 from C. D. Smith to Grace Michaels re Delicatessen and Cafeteria Workers Union, Local 232.
[96] Hearings, pt. 3, p. 1263.

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He affirmed that Butcher handled the claims processing. As pointed out previously, the employers with but one exception stated that they had seen no evidence that Dash & Love performed any service whatsoever in connection with these cases. The one excepted employer reported that the broker occasionally calls at his company to obtain specific claims information. Mrs. Ruth Katz, office secretary in Washington National's Philadelphia group office who processes claims in all the cases of this company in that area, stated that, to her knowledge, Dash & Love perform no field work, administration or any other service in connection with any of their cases. She advised that this office does all the administrative and claims work, including billing and collection of premium, postings, and maintenance of all administrative records necessary to the servicing of these cases.

Mr. Butcher, despite his capacity as Washington National's top supervisory official in the Philadelphia area, said he was not aware that Dash & Love had not distributed the carrier's bonus statements to policyholders although he knew that his company intended that they be delivered. He was likewise unaware, he said, of the broker's arrangement with Tesoro, whereby Dash & Love recovered half the dividends paid to the boot and shoe union.

(B) NEWARK INVESTIGATION

At Washington National's home office in Evanston, Ill., staff members reviewed some 15 files dealing with group-insurance policies issued by this company to various companies and union groups in the Newark, N. J. area, in all of which Harry D. Epstein, 29 Elizabeth Avenue, Newark, N. J., is the broker. Epstein was, until 1951, associated in a partnership with Louis B. Saperstein in an insurance brokerage firm known as the Harlew Agency, Inc., Newark. Saperstein is fully identified elsewhere in this report. Washington National has also insured several groups in the Newark area on which Harlew Agency, Inc., was broker of record.

Epstein has an arrangement with Washington National similar to that of Dash & Love, whereby he receives extra commissions amounting to 10 percent of earned premiums over and above regular commissions, deducted from dividends otherwise payable to the insured groups. His regular commission payments are based on Washington National's standard decremental scale except that in renewal years on all his cases he receives a flat 5 percent instead of the usual graded 5 percent, a departure from the carrier's standard contract. Epstein actually does process and pay claims, and, according to his statement, handles all other administrative functions in his cases despite the fact that Washington National also maintains a group office in Newark similar to the one in Philadelphia.

In each Epstein case reviewed by the staff at Washington National's home office, files reflected payment of an "administrative fee" amounting to 5 percent of earned premium to individuals identified as union officials. This administrative fee is provided by "loading" the insurance premium, i. e., the actual cost of insurance is increased by 5 percent in order to produce the fee. Washington National officials stated these administrators perform actual service such as contacting union members to sign up new applicants for insurance, to explain the insurance program, to assist in filling out claim forms, and to police

delinquent employer contributors. They further stated that these fees are paid to individuals designated by Epstein. Mr. Smith testified on November 30, 1955, that the carrier had discontinued the practice of loading the premium for administration fee purposes. Washington National officials earlier informed staff members in Evanston that they now require a letter of authorization from trustees or other responsible officials of a welfare fund or insurance plan before the carrier will pay administration fees to anyone.

Mr. Epstein was interviewed by staff members on November 3, 1955, at his office. He was informed that hearings were contemplated by the subcommittee later that month, at which time this matter would probably be reviewed. Mr. Epstein was served with a subpena on November 30, 1955 (after several earlier unsuccessful efforts by representatives of the United States marshal's office), ordering him to appear before the subcommittee; however, a telegram was received from him in which he stated he was in ill health and, in his physician's opinion, such an appearance would definitely endanger and be detrimental to his health.

In the November 3, 1955, interview with staff members, Epstein explained in detail the service he performs in all his cases in return for the special commission arrangements he has with Washington National. He stated that he maintains complete administrative records on all his cases to such an extent that he can handle any insurance problems which arise within his groups without reference to the company's home offices. His administrative functions include finding, selling, installing, premium billing and collection, claims processing and paying, auditing in some instances, and contacts with unions and trustees of plans with which he is connected as broker.

Since this description appeared to leave very little, if anything, for union administrators to do in return for 5 percent of premium in all his cases, Epstein was asked what function they perform. He stated they perform important functions by visiting employee beneficiaries in plants where the insurance program is in effect, explaining the insurance plan, answering inquiries, policing delinquent employer contributors and enrolling new applicants in these plans. Epstein admitted that, generally speaking, these "administrators" were union officials through whom he originally obtained the business, either by introduction or recommendation. He denied, however, that the fees paid to them in any sense represented a return of favor.

Like Dash & Love, Epstein does not make a practice of distributing the annual bonus statement which Washington National send him for delivery to the policyholder, though he conceded that it was the intent of the carrier that they be delivered. He said his insured groups had expressed no interest in these experience statements. Epstein also admitted that only one of his insured groups was aware that he had supplementary commission arrangements on his cases with Washington National. This group is the United Bakery, Confectionery, Cannery, Packing and Food Service Workers Union, Local 262, Newark, headed by Anthony Auriema and George Braverman, president and general organizer, respectively. This union, Epstein said, knew of his extra compensation but was not aware of how it was paid or the fact it was deducted from dividends.

Over a 4-year period, more than $18,000 was paid to 10 "administrators" in union insurance or welfare fund cases involving Epstein

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as broker and Washington National as carrier. Some of these cases are small and the amount of the fee proportionately small; however, the practice is open to serious question. This is apparently realized by Washington National officials who have discontinued such payments unless all interested parties are fully aware of the circumstances and have authorized them.

Two cases on which Harry Epstein is the broker and Washington National the insurer are cited to illustrate the effect of this practice on broker's earnings and policy costs.

(*1*) *United Bakery, Confectionery, Cannery, Packing, and Food Service Workers Union of New Jersey, Local 262, CIO*

This policy was originally written on June 15, 1951, by Washington National and provides life and casualty coverages for 810 members. The carrier's files show this to be a noncontributory program with the entire insurance premium except for an employee contribution of three-fourths of 1 percent of earnings toward State temporary disability benefits paid from the welfare fund built up from employer contributions. Although Washington National did not enter into a specific return (dividend) agreement at the time the case was written, its file on this case contained the notation, "Our retention should be about 10 percent."[97] Commissions payable to Epstein were to be 20 percent graded first year and 5 percent flat on renewal years plus the contingent commission of 5 percent (raised to 10 percent in April 1953).

This case was originally insured through the Continental Assurance Company of Chicago from August 15, 1947, to June 14, 1951, at which time it was canceled. The C. J. Simons & Co., a general agency of Continental, was general agent and Louis Some, 11 Beaver Street, Newark, N. J., was the broker. A questionnaire from Continental disclosed commissions and service fees amounting to 8.8 percent of premium in 1948 and 13.4 percent in 1949, the only 2 years reported. Premium volume in those same respective years was $21,267 and $30,771. There were no dividends paid by Continental.[98]

Washington National paid an administration fee of 5 percent of earned premium in this case to Anthony Aurema and George Braverman, officials of local 262, mentioned previously, who were designated as coadministrators of this plan. Through August 1, 1955, Washington National paid a total of $10,306.92 in administration fees. Until May 1954, monthly payments went by check direct to the welfare fund itself. Several of the returned checks paid to Aurema and Braverman reflect their personal endorsements, and both Aurema and Braverman informed staff members these checks were not deposited by them into the welfare fund. The checks issued to the welfare fund after May 1954 bear the stamped endorsement of the fund. It was determined that Aurema is a trustee of this fund and receives a salary of $60 a month plus $15 a month for expenses. Prior to the spring of 1954, both Aurema and Braverman were on the fund payroll. In June 1954, Braverman went off the welfare fund payroll to devote full time to organizing. During this entire period, both these officials were receiving regular salaries as union officers. Aurema said it was

[97] Washington National's Installation Summary, effective June 15, 1951.
[98] Questionnaire from Continental Casualty Co. re this group received in 1954.

upon the advice of the trustees of the fund that administrative fees from the insurance company were deposited to the fund beginning in May 1954. Of the total of $10,306.92 paid by Washington National for alleged administration in this case, only approximately $3,800 (37 percent) reached the fund itself. The remaining 63 percent went to 2 union officials who were already receiving salaries not only from the union but from the welfare fund itself. When asked how he managed to negotiate his administrative fee arrangement with Washington National, Aurema said it was his understanding that this carrier "customarily" paid such a fee and he felt "perhaps" he had suggested to Epstein that he and Braverman should be compensated for their services. Aurema originally learned of Washington National, he said, through one Joseph Biancardi, an official of local 50, Novelty, Metal and Allied Workers Union, Newark, N. J., who introduced Aurema and Braverman to Epstein. Biancardi, incidentally, was receiving an administration fee on another union group case amounting to 5 percent of premium, plus 2½ percent additional based on favorable claims experience.[99]

Neither Aurema nor Braverman could recall any dividend having been paid by Washington National while it was underwriting this risk. Aurema was not aware of Epstein's specific commission arrangements, he said, although he knew the broker received a regular commission and a contingent fee from the carrier on this case.

The original questionnaire submitted by Washington National on this case reported that a dividend of $1,302.50 had been paid the policyholder in 1953; however, the carrier's files on this case, when reviewed by subcommittee staff members, disclosed that no dividend has ever been paid. The $1,302.59 actually represents 2 contingent commission payments to Epstein in 1951 and 1952 of $564.36 and $738.23. Table 10 is based on corrected data submitted by the carrier in a new questionnaire concerning this case which shows the 4 years of experience.

TABLE 10.—*Summary of insurance experience, United Bakery, etc., Union Local 262—Washington National, 1951–54*

Policy year	Premiums	Commissions	Administration fees	Service fees[1]	Paid claims	Dividends	Gross retention	Net retentions[2]
1951	$43,105.01	[3] $7,151.61	$2,099.90	$1,077.63	$30,098.20	None	$13,006.81	$2,677.67
Percent		16.5	4.8	2.5	68.8		30.1	6.2
1952	$49,619.26	[3] $3,095.15	$2,373.36	$512.52	$39,436.62	None	$10,182.64	$4,201.61
Percent		6.2	4.7	1.0	79.4		20.5	8.4
1953	$53,949.88	$2,562.62	$2,619.61	$471.38	$37,327.34	None	$16,622.54	$10,968.93
Percent		4.7	4.8	.8	69.1		30.8	20.3
1954	$59,899.95	$2,845.25	$2,852.40	$409.50	$38,860.98	None	$21,038.97	$14,931.82
Percent		4.7	4.7	.6	64.8		35.1	24.9
Total	$206,574.10	$15,654.63	$9,945.27	$2,471.03	$145,723.14	None	$60,850.96	$32,780.03
Total percent	100.0	7.5	4.8	1.1	70.5		29.4	15.8

[1] Overwriting commissions to general agent of carrier.
[2] Includes insurance company reserve of $9,911.69 which represents 30.2 percent of total net retention and 4.7 percent of total premium.
[3] Includes extra or contingent commissions totaling $1,302.59 in first 2 years.

It can be seen that the beneficiaries of this welfare fund received a return on their insurance dollar of 71 cents over this 4-year period.

[99] Local 50, Metal and Allied Workers Union, International Jewelry Workers, 478 Broad Street, Newark, N. J., Epstein was the broker.

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Of the 29 cents of every dollar retained by the insurance company, 13.5 cents was consumed in commissions, service fees, and administration fees. From the remaining 15.5 cents of each premium dollar the insurance carrier paid its expenses, taxes, created contingency reserves, and took its profit. It is apparent that this case was suffering from an unnecessary burden of administration fees paid to the two union officials, particularly since Epstein, as broker, allegedly handled all the administrative work involved in his cases and received additional commissions in compensation therefor.

Washington National's files reflect that the company advised Epstein in November 1952, that this case had developed a "deficit bonus" of $518.21 in the first insurance year.[1] The company told Epstein, however, that it wanted to see if a bonus (dividend) couldn't be paid anyway, regardless of how small. On December 18, 1952, C. D. Smith, of the company, wrote the following letter to Epstein:

> * * * As I mentioned to you by telephone, in view of the fact that this group is self-administered, it is possible that we allow a 2-percent self-administration fee payable presumably to your office. The combined premium for casualty and life insurance for this period (June 15, 1951, to June 15, 1952) is $43,279.17. Two percent of this amount is $865.58. By deducting the $518.21 deficit from the 2-percent administration fee, there is a credit due in the amount of $347.37. I am writing to you to ask whether we should issue this check payable to the United Bakery Union or if the check should be made payable to you. Will you please let us hear from you concerning this matter at your earliest convenience? * * *

Epstein soon replied that Smith's assumption was correct and he would appreciate receipt of the administration fee in his office.[2] Further, Epstein expressed keen disappointment in the small amount in view of his "labors and expenses" in connection with this case. Following this, there was a lengthy period of negotiation between the broker and Washington National in which Epstein, incidentally, ascertained that the carrier had erroneously charged several claims against this group.[3] The file reflects that Epstein had already been paid flat commissions of 5 percent which totaled, for the year, $2,157.66. "Had we paid our regular graded commissions on the renewal business, the commission would have amounted to $742.30, a difference of $1,415.36 * * *"[4]

Nevertheless, Washington National paid Epstein $564.36 in May 1953 and $738.23 later in the same month, a total of $1,302.59 in extra commission. This is exactly the amount reported by the carrier in its original questionnaire to this subcommittee as having been paid to the policyholder as a dividend. It is noteworthy that the carrier mailed Epstein a bonus statement in May 1953 which showed a dividend payable of $564.36. Since this money went to the broker instead of the policyholder, it becomes fairly obvious why Epstein did not make a practice of distributing these statements to his insured groups.

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[1] Washington National letter to Epstein dated November 22, 1952.
[2] Epstein letter to Washington National dated December 22, 1952.
[3] Epstein letters to Washington National dated January 12, 1953, April 9, 1953.
[4] Intracompany correspondence, May 19, 1953.

(2) *The Torsion Balance Co., Clifton, N. J.*

This can be classified as a so-called "unilateral" insurance program in that there is no welfare fund involved as such. The employer is the policyholder, and performs some of the administrative functions with respect to the insurance plan.

In 1948, this company entered into an agreement with the union which represents its employees, the Playthings, Jewelry, and Novelty Workers International Union, CIO, Local 306, to provide hospitalization for employees through Blue Cross of New York. (This union is now known as Amalgamated, Local 306, Retail, Wholesale, and Department Store Union.) On December 18, 1950, Torsion Balance agreed to provide specified life insurance, casualty and temporary disability benefits to the employees through a private carrier. Dependents could be included at the employee's expense. Company officials informed staff members that the accident and sickness and hospitalization portions of the program were insured through the State Mutual Life Assurance Co., Worcester, Mass. This company was represented by a broker named Monroe Flaster, of Newark, N. J., who was introduced to company officials by Mr. Dominic Tripode, an international representative of the Retail Wholesale, and Department Store Union, with whom Torsion Balance conducts its collective-bargaining negotiations. In addition, the company took out a group policy with the Security Mutual Life Insurance Co., Binghamton, N. Y., to provide $1,000 of life insurance to each employee.

On November 6, 1952, a new agreement was signed which stipulated that the company would provide a fund equivalent to $0.0375 per hour per employee or $6.49 a month, the proceeds of which would be used to secure group life and hospitalization insurance with any cost in excess thereof to be paid by the union. The company was also to provide temporary disability benefits as required under New Jersey law. Arrangements were thus changed from specified benefits to a cents-per-hour contribution by the company. There was, however, no provision for a jointly managed welfare fund.

At the request of local 306, the insurance carriers in this program were changed from State Mutual and Security Mutual to Washington National in March 1953. This request was made in early 1953 by Mr. Tripode and five of the local's stewards. At the request of Mr. Harold F. Stephenson, assistant treasurer of the company, these stewards signed a letter drafted by Torsion officials formally requesting the company to make this change. Company officials informed staff members that the present broker on this case, Harry D. Epstein, was introduced to them by Mr. Tripode. Stephenson testified at subcommittee hearings that the union officials objected to signing the letter but that "I insisted upon it so that, if the benefits and the payments were not as good as what we were getting, we, as employers, would be covered."[5] This letter, of January 27, 1953, stipulated that there was to be no increase in aggregate cost to the Torsion Balance Co., as a result of the change in carriers. It further stated that the union had met on January 26, 1953, and voted to make this request of the company.

Torsion Balance also received a letter dated January 27, 1953, from Harry Epstein addressed to Stephenson in which Epstein, "Confirming our conversation of today," listed the benefits which would be

[5] Hearings, pt. 3, p. 1282.

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made available to the employees under Washington National's coverage. With two minor exceptions, the casualty benefits were the same as those furnished under the previous carriers; instead of the whole life group insurance policy, employees would now get $1,000 group term insurance and dependent coverage would also be added to the package. Epstein wrote that the cost of this coverage would be $6.45 per employee per month and would not exceed $6.49, coinciding with the exact amount provided in the November 6, 1952, contract for insurance.

As in all Epstein's cases, this one carried the extra 10-percent commission arrangement. Torsion Balance officials said they were not aware of Epstein's commission arrangement or the fact that extra commissions were deducted from dividends in this case. Washington National files further reflected that a 5-percent administrative fee was paid in this case, initially to one James Grafagnino and, subsequently, to Dominic Tripode. Torsion Balance officials had never heard of Grafagnino. He was not employed at the company and, to their knowledge, of course, performed no administrative function in connection with their group insurance plan. So far as they knew, Tripode likewise performed no administrative service but simply handled negotiations for local 306. They did not know that the 5-percent fee was being paid. They did not know what the insurance company retention was on their case and had never received an experience or bonus statement although Tripode, on several occasions, had been requested to furnish them one. Tripode assured them that the program was proceeding satisfactorily. They said it did not occur to them to ask Epstein for such a statement.

Washington National's files disclosed that a first-year dividend of 1,241.51 was earned by this group.[6] After deducting Epstein's 10 percent of earned premiums for additional commissions, or $694.03, the balance of $547.48 was paid to the company as policyholder. In the second policy year, a dividend of $2,409.32 was earned, of which Epstein received $603.78 as extra commission with the Torsion Balance Co. receiving the remaining $1,795.44.[7]

James Grafagnino was identified as a son-in-law of Dominic Tripode and a former official of the International Jewelry Workers Union with which local 306 is affiliated.

Torsion Balance Co. officials told staff members that even though their company is the policyholder in this case they feel no obligation other than to pay the fixed monthly insurance premiums as specified in their agreement with the union. They consider this to be a program which is negotiated and supervised by the union. They regard the insurance premium of $.0375 per hour as a fringe benefit otherwise payable as wages and therefore belonging to the employees. It should be mentioned that the company is holding in escrow the dividends received from Washington National pending a decision as to their disposition. They feel this money technically belongs to the employees. Company officials expressed complete satisfaction with the insurance program and, in fact, were amazed that Washington National could return dividends to them. According to the carrier's bonus statements in this case, the 2-year premium totaled

[6] Washington National letter to Epstein dated April 14, 1954.
[7] Washington National letter to Epstein dated May 12, 1954.

$12,788, of which claims consumed only 26.2 percent. Dividends amounted to 17.8 percent of premiums making a total return to beneficiaries on the insurance premium dollar of 44.5 cents. The remaining 55.5 cents of every dollar was retained by the insurance company out of which it paid almost 30 cents in basic commissions, extra commissions, overwriting commissions, and administration fees. From the remaining 25 cents, the insurance company paid taxes, expenses, established necessary reserves, and took its profit.

At 55.5 percent gross retention is not necessarily excessive in so small a case, particularly since the program includes $1,000 group term life insurance. Two death claims, for example, would require the insurance carrier to pay out more than it collected in life insurance premium in either of the first 2 years. It is necessary, then, for the carrier to create and build reserves to offset such a possibility. In this particular case there have been no death claims to date. The casualty coverage experience has also been favorable with only 31.4 percent of casualty premium being consumed in claims. According to the carrier's bonus statement for this case, in the first 2 policy years, its expenses, taxes, and contingency reserves amounted to $7,086.05, or 55.4 percent of the total 2-year premium of $12,788.10.

It is unfortunate that even small cases with highly favorable experience are subject to unnecessary expense resulting from sub rosa arrangements between insurance carriers and brokers. True, the employees of Torsion Balance received the benefits guaranteed them in the contract, and the company as policyholder receive some dividends. Nevertheless, sizable portions of the premiums were made away with without the knowledge or authorization of either the insured or the beneficiaries and paid to the broker. The situation is even worse in that the broker completely and deliberately concealed such arrangements from the employer policyholder and the beneficiaries. The insurance company, in accepting verbal assurances from the broker, took no steps to verify that the arrangements had actually been approved by the policyholder.

Epstein told staff members that Dominic Tripode is receiving administration fees on nine insurance plans negotiated by the union of which he is the international representative. In four of these, including Torsion Balance Co., the employer is the policyholder. Three of these employers, contacted by staff members, said Tripode performs no administrative functions to their knowledge in the programs. Furthermore, two officials of the Retail, Wholesale, and Department Store Union, Local 301, who assist Tripode in his organizing duties, said neither they nor Tripode performs administrative services in the insurance programs they negotiate. Tripode testified at the subcommittee's hearings that neither the president of his international union nor the members of his union knew he was receiving an administration fee in these cases though he agreed that they are entitled to know it. Tripode said he had originally worked out the arrangement with Epstein.

5. FOLLOWUP ACTION BY WASHINGTON NATIONAL INSURANCE CO.

Washington National wished the subcommittee to take cognizance of the fact that since the hearings it has taken certain "corrective measures" which Mr. Knoblock outlined in his letter of March 5, 1956:

(*a*) The additional 10-percent commission to brokers Harry D.

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Epstein and the firm of Dash & Love, based on claims experience, has been discontinued entirely.

(*b*) In place of the 10 percent, the company has agreed to pay these two brokers administration fees of 2½ and 3 percent which fees have no connection whatsoever with the claims experience of their groups.

(*c*) Future bonus statements to policyholders will reflect any administration fee paid, together with the amount and identity of the individual to whom paid. Formal notification of such arrangements is now being furnished directly to the policyholders with the latters' signed acknowledgment thereof being retained with the master policies at the company's home office.

(*d*) The administration fees formerly paid to various union members on New Jersey group cases (Epstein groups) have been completely discontinued.

(*e*) Policyholders are now being notified directly that bonus statements have been prepared and forwarded to agents, brokers, or field representatives for delivery and will be distributed to policyholders within a relatively short time.

D. EASTERN CASUALTY CO.

Examination of questionnaires submitted by this company reflected abnormally high commissions, fees and insurance company retention in most of its policies. These were issued to unions or welfare-fund trustees. High commissions and fees were found present in all groups regardless of the premium volume. Nearly all policies were written through two brokers who, according to the data reported, were paid flat commissions of 12.5 to 15 percent in both the first and renewal years, plus service fees ranging from 2.5 to 7.5 percent per year.

However, the New York State Department of Insurance had conducted investigations into certain phases of this company's operations, particularly with respect to two brokers: Cardinal Agency, Inc., and Alcor Agency, Inc., both of New York City. The department's publication, Whose Welfare, refer to portions of this investigation and officials of the department informed the subcommittee that additional material bearing on Eastern Casualty would be brought out in future reports and hearings. For this reason, the subcommittee conducted no extensive inquiry into this matter; however, staff members did confer with officers of the Eastern Casualty Co. in November 1955, and briefly reviewed a number of the company's files pertaining to welfare-fund programs.

David Schultz, vice president of Eastern Casualty, testified before the subcommittee during its November 30, 1955, hearing at which time the general background, activities, and practices of this company were reviewed. Following is a summary of his testimony.

1. VOLUME OF PREMIUMS

The Eastern Casualty Co. was organized in 1949 by Samuel Kosman, presently an officer of the Union Casualty & Life Insurance Co., Mount Vernon, N. Y. Eastern Casualty began operations in 1950 with the majority of its business consisting of group cases involving union-

welfare plans. In 1954, this business reached a total premium of approximately $1 million.

Eastern Casualty, as a new company, lacked facilities and personnel to administer its risks and its general policy was to have the broker perform this work for a service fee in addition to his regular commission.

2. BROKERS AND COMMISSIONS

The bulk of Eastern Casualty's business emanated from the two brokers: Cardinal Agency, Inc., and Alcor Agency, Inc.; it paid a flat 15-percent commisison to Cardinal on first-year and renewal-year premiums in all cases. The service fee to this broker varied over the years from 7.5 percent originally to 3 percent beginning in 1953. Thus, the combined commissions and service fees to this broker on all cases ranged from 18 percent to 22.5 percent. Schultz stated that the service fees were paid only as long as the agency continued to perform services on the case. "In many cases, the allowances were withdrawn and in some cases the services stopped. There was no agreement that they were to be continuous and flat in the sense that the commissions were." [8]

Eastern Casualty paid a 12.5-percent flat commission to the Alcor Agency, Inc., which applied in the first policy year and each renewal year. In addition, this broker received 2.5 percent plus another 2.5 percent for servicing and administration, or a total of 17.5 percent in commissions and fees.

Mr. Schultz testified that in return for their service fees these brokers handled almost all the administrative details of their cases, including claims processing and premium billing. The commissions, he said, were paid "for bringing the business to the company."

Chairman Douglas asked Mr. Schultz whether he did not think these commissions were rather high, particularly since they were not based on decremental scales but were paid at flat rates not only in the initial year but in succeeding years. Mr. Schultz replied that the commission scales were established before the business was produced, rather than on an "each case basis," and that his company could not anticipate the premium volume for each particular case. In effect Eastern Casualty agreed to pay these commissions year after year on all the business which these two brokers produced.

Schultz said when these commission scales were established for the Cardinal and Alcor agencies, his company had no other business from other sources. Eastern's entire commission schedule was changed in 1953 with respect to other agents, but the original arrangement with these two agencies was left unchanged. At present, these brokers account for only about 15 to 20 percent of Eastern's total business because the business written by them has decreased.

Mr. Schultz said that from his experience, an overall study of group insurance since 1950 would probably disclose that much higher commissions were paid than an individual company's scale might indicate. He attributed this to frequent changes in insurance carriers after the first year, which meant that the lower renewal year commissions had no chance to obtain.

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[8] Hearings, pt. 3, p. 1180.

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3. LOSS OF BUSINESS

Schultz said Eastern has lost almost half a million dollars of business in terms of annual group casualty insurance premiums in 1955. "Most of this business of its own nature, so to speak, has gone away from us." He did not attribute this loss to switching of this business by brokers to companies paying higher commission rates. "On almost all of this business we lose it by our own actions, either directly by cancellations, indirectly by requesting a premium increase, which in the market as it is today is tantamount to losing the group, or by indicating to the group in certain situations that we were not particularly interested in renewing." [9] He added that this type of business was not sufficiently profitable for his company and, as a result, it has been sidetracked completely in the interest of other types of insurance.

Eastern Casualty recognizes favorable experience by reducing the premium in the ensuing renewal year, Schultz said, or by making cash returns on the previous policy year premiums. The company's practice has varied from year to year in this respect. Schultz testified that the majority of Eastern's group policyholders have not received cash returns and that "some of them for experience purposes did not warrant any credit. The losses developed for support of a credit, and for certain of the groups in lieu of a cash return we reduced the premium rate in the next year." [10]

4. HIGH RETENTIONS

The chief counsel discussed with Schultz the insurance experience of a case involving the Restaurant, Luncheonette and Soft Drink Employees Union, Local 1115, 323 Fourth Avenue, New York City. According to Eastern's questionnaire, this policy was issued in March 1952 with the Cardinal Agency as broker. Referring to the data furnished by the insurance company, it was pointed out that in the first policy year of this case, premiums totaled $28,638; commissions amounted to $4,296, or 15 percent; fees to $2,148, or 7.5 percent; and claims totaled $11,966, or 41.8 percent of premium. This produced a gross insurance retention of 58.2 percent of premium, 22.5 percent of which represented commissions and fees. There was no refund or dividend paid.

Mr. Schultz explained that the figures reported by his company in all its questionnaires had been on a cash basis and, therefore, would not necessarily reflect all incurred claims, particularly in the first policy year. He stated that "in the company's retention which you have developed from [these figures] are the reserves chargeable to the experience on this group, which is just as real as claims payments except that they are paid out in a future policy year. So that is in no sense retention by the company. That is to the credit of the policyholder." [11] He also testified that in this case a substantial rate decrease was allowed in the second policy year in lieu of a cash return.

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[9] Ibid., p. 1184.
[10] Ibid., p. 1185.
[11] Ibid., p. 1187.

The experience on this case in 1953 and 1954, as obtained from the company's files and verified by Schultz, reflect the following data:

	1953		1954	
	Amount	Percent	Amount	Percent
Premiums	$29,497.51	100.0	$30,092.24	100.0
Commissions	4,424.63	15.0	4,513.81	15.0
Fees, allowances	2,212.31	7.5	1,577.47	5.2
Claims paid	13,983.72	47.4	16,773.44	55.7
Dividends	0		0	
Gross retention	15,513.79	52.6	13,318.80	44.3

(This case was terminated on March 31, 1955, according to the company's files.)

Thus, it can be seen that in the 3-year history of this group, according to the company's figures, 51.7 cents of every premium dollar was retained by the insurance company, over 17 cents of which was paid out in commissions and service fees. Clearly, this is a grossly exorbitant insurance charge and an example of how a group of beneficiaries suffered at the hands of this carrier. The most liberal allowances for reserves would still leave insurance costs markedly high. It is significant that premium decreases of 15 to 20 percent were given this group on the basis of favorable experience. It is obvious that the cost of insurance was still high, however.

Counsel then reviewed a case involving the welfare fund of Local 816, International Brotherhood of Teamsters, 364 West 34th Street, New York City. A group policy was issued by Eastern Casualty to the trustees of this fund on December 1, 1950, with the Cardinal Agency, Inc., as broker. The insurance company files reflected the following experience.

	1951		1952		1953		1954	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Premiums	$24,930.00	100.0	$56,901.69	100.0	$90,202.45	100.0	$106,570.44	100.0
Commissions	3,116.25	12.5	8,535.25	15.0	5,443.59	6.0	0	0
Fees	1,661.63	6.6	4,276.73	7.5	2,226.45	2.5	0	0
Claims paid	14,324.32	57.2	37,088.85	65.2	67,468.30	74.8	87,613.49	82.2
Dividends	1,029.23	4.1	0	0	0	0	0	0
Gross retention	9,576.56	38.7	18,812.84	34.8	22,734.15	25.2	18,956.95	17.8

Mr. Schultz pointed out the steadily climbing loss ratio (claims paid as percent of premium) on this case and said in the fifth insurance year, 1955, it is running at about 95 percent. He testified that Cardinal had been replaced as broker by action of the trustees and that he did not know the reason for it. He stated that Andre Burnett, an independent broker, replaced Cardinal, and Burnett is being paid only a 5 percent commission. "That was a negotiated commission, in view of the extremely high-loss ratios that are developing on the case," he said.[12]

The Cardinal Agency, Inc., is or was a general agent of Eastern Casualty Co. In his testimony, Schultz identified the principals of the agency as John DeFeo and William H. Martoccia. Another of its

[12] Ibid., p. 1190.

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principals is Samuel Kosman, who, according to Schultz, organized Eastern Casualty. Approximately one-third of Cardinal's income from 1951 to 1954 consisted of commissions and fees received from Eastern Casualty on union welfare fund insurance premiums. As Eastern's general agent, the Cardinal Agency collected and remitted premiums in all its cases to Eastern, after deducting commissions and service fees.

The Cardinal Agency, Inc., has been under investigation by both the New York district attorney's office and the New York State Insurance Department; the former began its inquiry in late 1953. In response to questioning, Schultz said that he had no "direct knowledge" that the Cardinal Agency was under investigation by the New York State Insurance Department, though he was aware of the fact that the agency was being looked into by the district attorney.

With respect to the Teamsters local 816 cases, Eastern Casulty's files reflect that Andre Burnet who "replaced" Cardinal Agency as broker on this group is himself a former employee of Cardinal. The local 816 case file reveals that the trustees asked Eastern for an analysis of its charges for all years, including retentions, and requested a "dividend projection" for future policy years. The company did not reply to this request, according to this file, but by letter of November 1, 1955, notified the trustees that it was discontinuing this policy.

5. BROKER CONTROL

In discussing the payment of high flat commissions to brokers such as Cardinal and Alcor, Schultz testified that such payments were established solely for the purpose of competing with existing scales in the group insurance market. The company did not feel that it could obtain business otherwise and that commissions of 12.5 percent to 15 percent "would put us in a position of competing for this business with the agents and brokers." He added "* * * the situation was then much as it is today, that the broker does control the placing of the business on behalf of the trustees," [13] and he agreed that creating attractive scales to obtain the business of these brokers was the practice of the group-insurance industry.

Schultz said the New York State Insurance Department has never instructed his company to reduce its rates and commissions.

Senator Allott cited statistics from the subcommittee's interim report of January 1955, wherein 79 insurance companies reporting group-insurance business paid out about 87.5 percent of their premium income in claims and dividends, leaving a retention of some 12.5 percent. Schultz said a comparable figure for Eastern Casualty might run about 70 to 75 percent expended in claims.

6. CASES DISCUSSED

Seven other cases were discussed with Schultz, at the hearing and subsequent thereto. These risks had been selected at random from among the 36 questionnaires originally submitted to the subcommittee by this company. The figures set out below were verified by Schultz. Gross retention is shown in parentheses. Supplementary data obtained by the staff from the company's individual case files is also

[13] Idem.

included where pertinent, together with comments by Schultz at the hearings:

(1) Trustees of local 318 health and welfare trust fund (International Brotherhood of Pulp, Sulphite, and Paper Mill Workers), 225 Lafayette Street, New York City; broker: The Cardinal Agency, Inc.; policy effective November 1, 1951:

	1952		1953	
	Amount	Percent	Amount	Percent
Premiums	$32,546.46	100.0	$41,364.71	100.0
Commissions	4,881.97	15.0	6,204.71	15.0
Fees, administrative	2,440.98	7.5	2,913.66	7.0
Claims paid	11,204.90	34.4	19,238.35	46.5
Dividends	0		0	
Gross retention	(21,341.56)	65.6	(22,126.36)	53.5

Schultz testified that at least 1 premium decrease of 20 percent was granted in this case, according to his recollection.

The company's file on the case reflected that on September 10, 1954, an attorney representing the trustees of the welfare fund requested the Cardinal Agency for a "dividend account" on this policy for all years in force. It was pointed out that such a statement had never been supplied and the trustees felt perhaps a dividend had been "overlooked." Cardinal referred the inquiry to Eastern Casualty and on September 23, 1954, Schultz wrote the trustees advising that no retroactive experience credits were payable for the first policy year at November 1, 1952; however, at the end of the second policy year on November 1, 1953, a rate reduction of approximately 15 percent was applied on the renewal in view of the previous year's experience.

On March 26, 1954, the trustees notified Eastern that they were terminating this insurance contract effective March 31, 1954.

(2) Trustees of Local 107, AFL Labor-Management Trust Fund, 799 Broadway, New York City (The Paper Bag, Novelty, Mounting, Finishing, and Display Workers, Local 107); broker: The Cardinal Agency, Inc.; policy effective June 1, 1951:

	1952		1953		1954	
	Amount	Percent	Amount	Percent	Amount	Percent
Premiums	$100,308.65	100.0	$165,634.47	100.0	$184,138.71	100.0
Commissions	15,046.30	15.0	24,345.17	15.0	23,938.03	13.0
Fees and allowances	7,523.15	7.5	12,422.58	7.5	0	
Claims paid	44,888.31	44.8	90,898.57	54.9	112,019.24	60.8
Dividends	0		0		0	
Gross retention	55,420.34	55.2	74,735.90	45.1	72,119.47	39.2

With respect to this case, Schultz testified, "* * * I believe (premium) decreases totaling about 25 percent have been put in."[14]

The carrier's files reflected that at the policy renewal year commencing June 1, 1954, the benefits and premiums were increased on this policy. The group was also allowed a premium credit of $2,000 per month against payment of subsequent premiums, or a total rate reduction of $24,000. There is no other indication of a premium decrease,

[14] Ibid., p. 1195.

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and there were no cash returns. Since the 1954 premium totaled $184,138.71, this amounted to a 13-percent decrease or premium credit.

On March 1, 1955, an official of this welfare fund wrote Eastern Casualty pointing out that an analysis of this case from its start reflected the following:

Premiums	$446,364.60
Claims paid	247,806.12
Dividends apportioned	24,000.00
Claims reserves	35,255.92
New York State assessment charges	1,167.94
Retained by Eastern Casualty (30.02 percent)	134,134.62

This official asked Eastern Casualty for a breakdown of this retention figure together with explanations, plus a 10-year projection in the case.

The files do not reflect that this inquiry was ever answered. On June 30, 1955, the trustees terminated this insurance contract with Eastern.

(3) Welfare fund of Master Truckmen of America, Inc. (local 816, International Brotherhood of Teamsters); broker: The Cardinal Agency; policy effective September 1, 1950:

	1951		1952		1953		1954	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Premiums	$42,857.89	100.0	$40,170.10	100.0	$53,687.10	100.0	$71,554.60	100.0
Commissions	5,332.24	12.5	6,025.52	15.0	8,053.16	15.0	0	
Fees and allowances	3,199.34	7.5	3,012.76	7.5	4,026.58	7.5	0	
Claims paid	20,467.75	48.0	22,037.85	54.9	32,994.89	61.5	67,542.72	94.4
Dividends	0		0		0		0	
Gross retention	22,190.14	52.0	18,132.25	45.1	20,692.21	38.5	4,011.88	5.6

The company's file in this case reflected no information as to why commissions and fees were discontinued.

(4) Trustees of the Bronx Bartenders welfare and insurance fund; broker: Alcor Agency, Inc. (January 1, 1952, to July 1, 1952); Harlew Agency, Inc. (July 1, 1952, to July 1, 1953); Jannine Agency (July 1, 1953, to October 1, 1953); policy effective January 1, 1952:

	1952		1953	
	Amount	Percent	Amount	Percent
Premiums	$61,521.50	100.0	$41,491.71	100.0
Commissions	7,690.19	12.5	5,186.46	12.5
Fees and allowances	1,954.42	3.2	1,369.84	3.3
Claims paid	32,738.03	53.2	31,323.30	75.5
Dividends	0		0	
Gross retention	28,783.47	46.8	10,168.41	24.5

According to the company's files, Eastern Causalty canceled this group as of Octobr 1, 1953. From January 1, 1952, to June 30, 1952, Eastern paid commissions of 12.5 percent to Alcor plus 2.5 percent to Alphonse Corcillo, the principal of the agency, as an "underwriting servicing override." On June 20, 1952, the welfare fund trustees notified Eastern that Harlew Agency would henceforth be broker of record. Beginning July 1, 1952, Harlew received 10 percent com-

missions and Corcillo a 5 percent override. Harlew assigned its commissions to the Jannine Agency which, from July 1, 1953, to date of cancellation, was paid 10 percent while Corcillo continued to receive his 5 percent override.

Significantly, Eastern's files reflect that claims service was handled by the company itself throughout this entire case.

(5) Operating Engineers, Locals 137, 137A and 137B; broker: The Alcor Agency, Inc.; policy effective August 1, 1950:

	1951		1952		1953		1954	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Premiums	$3,952.56	100.0	$11,530.66	100.0	$12,900.00	100.0	$12,600.00	100.0
Commissions	494.07	12.5	1,441.33	12.5	1,612.50	12.5	1,575.00	12.5
Fees and allowances	197.63	5.0	576.53	5.0	645.00	5.0	630.00	5.0
Claims paid	772.07	19.5	3,011.02	26.1	2,543.13	19.7	3,994.27	31.7
Dividends	855.68	21.6	3,468.88	30.1	2,699.72	20.9	3,154.63	25.0
Gross retention	2,324.81	58.9	5,050.76	43.8	7,657.15	59.4	5,451.10	43.3

(6) Joint welfare fund of the International Union of Operating Engineers, Locals 14, 14B, 15, 15A, and 15C; broker: Alcor Agency, Inc.; policy effective July 1, 1950:

	1951		1952	
	Amount	Percent	Amount	Percent
Premiums	$46,560.00	100.0	$71,729.80	100.0
Commissions	5,820.00	12.5	8,966.23	12.5
Fees and allowances	690.00	1.5	3,586.49	5.0
Claims paid	35,144.43	75.5	43,659.43	60.9
Dividends	0		0	
Gross retention	11,415.57	24.5	28,070.37	39.1

This case was terminated by the trustees on March 12, 1952, according to carrier's files. It is noteworthy that Sidney E. Liewant became an insurance consultant to this welfare fund. One Sidney E. Liewant in 1950 was secretary and general manager of Eastern Casualty Co.

(7) Pavers and Roadbuilders District Council welfare fund; broker: Alcor Agency, Inc.; policy effective April 1, 1951:

	1951		1952		1953		1954	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Premiums	$21,600.00	100.0	$29,849.93	100.0	$34,570.02	100.0	$56,296.62	100.0
Commissions	2,700.00	12.5	3,731.24	12.5	4,321.25	12.5	7,037.08	12.5
Fees and allowances	1,080.00	5.0	1,492.50	5.0	1,728.50	5.0	2,814.83	5.0
Claims paid	5,623.06	26.0	9,476.51	31.7	14,526.74	42.0	21,057.49	37.4
Loss reserve [1]	2,236.56	10.4	653.74	2.2	2,097.39	6.1	6,256.89	11.1
Dividends	3,243.83	15.1	4,847.23	16.2	7,208.50	20.9	9,108.60	16.2
Gross retention	12,733.11	58.9	15,526.19	52.1	12,834.78	37.1	26,130.53	46.4

[1] Included in gross retention: these figures were extracted from information in the company's files and are an indication of the reserves to which Mr. Schultz referred which are returned to the insured group in subsequent years through claims payments.

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Prior to preparation of this report the above experience figures on these nine cases were submitted to Mr. David Schultz of Eastern Casualty for verification. Under date of January 4, 1956, he wrote the subcommittee as follows:

> In accordance with your letter of December 27, I am returning the exhibit on nine of our welfare-fund groups. Except for a small error for local 107, these figures are correct.
>
> The point I tried to make at the hearing was that these figures were strictly cash-basis, rather than the earned premium-incurred loss basis which is used to compute retroactive credits, and the cash-basis figures may develop unrealistic percentages, particularly when short periods (1 or 2 years) are involved. If possible, we should like your published record to note that these figures are not on the accrual basis.
>
> Thank you for your courtesy and this opportunity to review and comment on this exhibit.[15]

7. OBSERVATIONS

The nine cases described above represent only a fourth of those reported on the company's questionnaires. On virtually all cases, however, the carrier's net retention, after payment of claims, dividends, commissions and fees, was equally high. By and large the only return realized by the welfare plan policyholders insured with this company was through actual claims paid. This is partially explainable, of course, by the fact that Eastern's business was largely produced by the two brokers, Cardinal Agency, Inc., and Alcor Agency, Inc., both of which received high-flat commissions and service fees regardless of premium volume of a particular case. Since these items are a part of retention it naturally follows that any case involving either of these brokers was burdened with heavy surcharges of 17.5 to 22.5 percent, thus driving up the cost of insurance. Mr. Schultz stressed that the figures reported were on a cash rather than an accrual basis and that the company's retention, developed from these figures, did not take into account the reserves set up in each case which are returnable to the policyholder via claims paid out in ensuing or renewal years. He further emphasized that sizable rate reductions, rather than cash dividends, were given in many cases where the experience warranted. In spite of this contention, however, a review of these cases on a 2-, 3-, or 4-year basis, reflects but little reduction.

E. MUTUAL BENEFIT HEALTH & ACCIDENT ASSOCIATION AND COMPANION LIFE INSURANCE CO.

1. THE COMPANY

Mutual Benefit Health & Accident Association, commonly referred to as Mutual of Omaha, is a health and accident company organized under the laws of the State of Nebraska. It commenced business on January 10, 1910; and in 1950 first entered the group accident and health field.

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[15] Ibid., p. 1200.

missions and Corcillo a 5 percent override. Harlew assigned its commissions to the Jannine Agency which, from July 1, 1953, to date of cancellation, was paid 10 percent while Corcillo continued to receive his 5 percent override.

Significantly, Eastern's files reflect that claims service was handled by the company itself throughout this entire case.

(5) Operating Engineers, Locals 137, 137A and 137B; broker: The Alcor Agency, Inc.; policy effective August 1, 1950:

	1951		1952		1953		1954	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Premiums	$3,952.56	100.0	$11,530.66	100.0	$12,900.00	100.0	$12,600.00	100.0
Commissions	494.07	12.5	1,441.33	12.5	1,612.50	12.5	1,575.00	12.5
Fees and allowances	197.63	5.0	576.53	5.0	645.00	5.0	630.00	5.0
Claims paid	772.07	19.5	3,011.02	26.1	2,543.13	19.7	3,994.27	31.7
Dividends	855.68	21.6	3,468.88	30.1	2,699.72	20.9	3,154.63	25.0
Gross retention	2,324.81	58.9	5,050.76	43.8	7,657.15	59.4	5,451.10	43.3

(6) Joint welfare fund of the International Union of Operating Engineers, Locals 14, 14B, 15, 15A, and 15C; broker: Alcor Agency, Inc.; policy effective July 1, 1950:

	1951		1952	
	Amount	Percent	Amount	Percent
Premiums	$46,560.00	100.0	$71,729.80	100.0
Commissions	5,820.00	12.5	8,966.23	12.5
Fees and allowances	690.00	1.5	3,586.49	5.0
Claims paid	35,144.43	75.5	43,659.43	60.9
Dividends	0		0	
Gross retention	11,415.57	24.5	28,070.37	39.1

This case was terminated by the trustees on March 12, 1952, according to carrier's files. It is noteworthy that Sidney E. Liewant became an insurance consultant to this welfare fund. One Sidney E. Liewant in 1950 was secretary and general manager of Eastern Casualty Co.

(7) Pavers and Roadbuilders District Council welfare fund; broker: Alcor Agency, Inc.; policy effective April 1, 1951:

	1951		1952		1953		1954	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Premiums	$21,600.00	100.0	$29,849.93	100.0	$34,570.02	100.0	$56,296.62	100.0
Commissions	2,700.00	12.5	3,731.24	12.5	4,321.25	12.5	7,037.08	12.5
Fees and allowances	1,080.00	5.0	1,492.50	5.0	1,728.50	5.0	2,814.83	5.0
Claims paid	5,623.06	26.0	9,476.51	31.7	14,526.74	42.0	21,057.49	37.4
Loss reserve [1]	2,236.56	10.4	653.74	2.2	2,097.39	6.1	6,256.89	11.1
Dividends	3,243.83	15.1	4,847.23	16.2	7,208.50	20.9	9,108.60	16.2
Gross retention	12,733.11	58.9	15,526.19	52.1	12,834.78	37.1	26,130.53	46.4

[1] Included in gross retention: these figures were extracted from information in the company's files and are an indication of the reserves to which Mr. Schultz referred which are returned to the insured group in subsequent years through claims payments.

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Prior to preparation of this report the above experience figures on these nine cases were submitted to Mr. David Schultz of Eastern Casualty for verification. Under date of January 4, 1956, he wrote the subcommittee as follows:

> In accordance with your letter of December 27, I am returning the exhibit on nine of our welfare-fund groups. Except for a small error for local 107, these figures are correct.
>
> The point I tried to make at the hearing was that these figures were strictly cash-basis, rather than the earned premium-incurred loss basis which is used to compute retroactive credits, and the cash-basis figures may develop unrealistic percentages, particularly when short periods (1 or 2 years) are involved. If possible, we should like your published record to note that these figures are not on the accrual basis.
>
> Thank you for your courtesy and this opportunity to review and comment on this exhibit.[15]

7. OBSERVATIONS

The nine cases described above represent only a fourth of those reported on the company's questionnaires. On virtually all cases, however, the carrier's net retention, after payment of claims, dividends, commissions and fees, was equally high. By and large the only return realized by the welfare plan policyholders insured with this company was through actual claims paid. This is partially explainable, of course, by the fact that Eastern's business was largely produced by the two brokers, Cardinal Agency, Inc., and Alcor Agency, Inc., both of which received high-flat commissions and service fees regardless of premium volume of a particular case. Since these items are a part of retention it naturally follows that any case involving either of these brokers was burdened with heavy surcharges of 17.5 to 22.5 percent, thus driving up the cost of insurance. Mr. Schultz stressed that the figures reported were on a cash rather than an accrual basis and that the company's retention, developed from these figures, did not take into account the reserves set up in each case which are returnable to the policyholder via claims paid out in ensuing or renewal years. He further emphasized that sizable rate reductions, rather than cash dividends, were given in many cases where the experience warranted. In spite of this contention, however, a review of these cases on a 2-, 3-, or 4-year basis, reflects but little reduction.

E. MUTUAL BENEFIT HEALTH & ACCIDENT ASSOCIATION AND COMPANION LIFE INSURANCE CO.

1. THE COMPANY

Mutual Benefit Health & Accident Association, commonly referred to as Mutual of Omaha, is a health and accident company organized under the laws of the State of Nebraska. It commenced business on January 10, 1910; and in 1950 first entered the group accident and health field.

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[15] Ibid., p. 1200.

Mutual's wholly owned subsidiary, Companion Life Insurance Co., was licensed in New York on July 1, 1949, as a life company. Companion began writing group life insurance in 1950.

According to testimony at the subcommittee's hearing on November 30, 1955,[16] Mutual and Companion both bid for group business (the former with respect to accident and health coverages and the latter only on life), sometimes separately and sometimes jointly. Generally, if the coverage desired includes both life and casualty, Mutual handles the casualty and Companion the life. Occasionally when both types of coverage are included they submit joint bids.

Mutual's volume of business rose sharply from its entry into the group field in 1950 to 1954. Earned premiums in 1950 were a little over $2 million and $13.6 million in 1954, as the following table shows:

	1950	1951	1952	1953	1954
Premiums earned	$2,026,685	$2,490,521	$5,532,709	$9,836,727	$13,643,485
Claims incurred	1,424,371	2,058,492	5,037,985	9,265,951	13,030,206
Expense excluding Federal income and real-estate taxes	331,755	445,405	591,504	876,931	832,375
Commissions and brokerage	307,857	257,865	391,431	452,035	421,504
Loss from underwriting	37,298	281,241	488,211	758,190	640,600
Percentage of commissions and brokerage to premiums earned	15.2	10.4	7.1	4.6	3.1

As indicated above, Mutual has not yet experienced a profitable year in the group business. Officials of the company informed the subcommittee, however, that a substantial increase in writing in 1955, coupled with a standardization of commissions and fees, would probably result in a profit for that year.

Of significance, perhaps, in explaining both Mutual's rise in the group field and its failure to operate profitably, are high commissions and service fees paid agents and brokers. Initially the company paid level combination service fees and commissions as high as 30 percent for first-year business and 15 percent for renewal business. Until 1954, Mutual had at least 12 different commission schedules ranging from a level 1 percent for first year and renewal business to a graded 30 percent first year, 7 percent renewal, including an incremental fee schedule under which the larger the premium the greater was the allowance for servicing. This had the effect of establishing a flat rather than a graded yield to the broker when combined with the decremental commission scale. In effect, it was a commission disguised as a service fee, though Randall argued that it was not hidden as Mutual paid it and declared it.

Under a gradual reorganization of its practices, Mutual is now on a standard 20 percent graded commission on all new cases, with renewals graded downward from 5 percent. Likewise, in almost all cases, service fee scales are at a level 3 or 4 percent.

2. DETAILS OF INDIVIDUAL PROGRAMS

The effect and extent of the commission and service fee arrangements of Mutual of Omaha can be demonstrated by considering four cases which subcommittee staff members examined in the company's files and concerning which testimony was received at public hearings.

[16] Hearings, pt. 3, pp. 1200–1228.

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(A) LOCAL 445, INTERNATIONAL BROTHERHOOD OF TEAMSTERS WELFARE FUND

This is a joint trusteed noncontributory fund in Westchester County, N. Y., financed by contributions from approximately 50 trucking firms. It covers about 600 employees. Both life and casualty coverages began January 1, 1951. The combined experience of Mutual and Companion Life for this group from January 1, 1951, to November 1, 1955, is shown in table 11.

The agent of record, and administrator, in this case is Victor D. Levitt, Jr., 20 Archer Avenue, Mount Vernon, N. Y. As table 11 indicates, the combined commissions and service fees actually paid Levitt on this case ranged from 25.5 percent of premium in the policy year 1951 to 10.2 percent in the policy year 1954, or an average of 14.1 percent for the 5-year period. Mr. Levitt was too ill to appear at the subcommittee's hearings. However, table 12 was provided, setting forth the commission and fee scales applicable to this case. It will be observed that the percentage payable to Mr. Levitt by Mutual under the fee scale in renewal years rises as the amount of premium increases; the commission scale, on the other hand, decreases as the premium rises.

TABLE 11.—*Summary of premiums, commissions, and fees paid, Jan. 1, 1951, to Dec. 31, 1955; Local No. 445, International Brotherhood of Teamsters welfare fund*

	Premiums	Commissions	Fees	Total, commissions plus fees	Percent of premium
1951:					
Companion Life, GL No. 3	$11,616.00	$2,051.00	$787.21	$2,838.21	24.4
Mutual, GMB 1006	13,002.64	2,850.53	650.13	3,500.66	26.9
Mutual, GMB 1007	22,918.84	4,647.51	1,145.95	5,793.46	25.3
Total	47,537.48			12,132.33	25.5
1952:					
Companion Life	12,394.20	619.71	805.62	1,425.33	11.5
Mutual, No. 1006	14,066.51	331.00	1,075.66	1,406.66	10.0
Mutual, No. 1007	28,884.95	1,510.25	2,413.78	3,924.03	13.6
Total	55,345.66			6,756.02	12.3
1953:					
Companion Life	16,454.82	822.75	1,069.57	1,892.32	11.5
Mutual, No. 1006	20,916.72	1,576.88	1,487.67	3,064.55	14.6
Mutual, No. 1007	40,823.70	2,168.47	3,474.37	5,642.84	13.8
Total	78,195.24			10,599.71	13.6
1954:					
Companion Life	15,235.29	761.76	990.30	1,752.06	11.5
Mutual, No. 1006	22,772.75	460.79	1,811.12	2,271.91	10.0
Mutual, No. 1007	43,391.95	763.36	3,525.70	4,289.06	9.9
Total	81,399.99			8,313.03	10.2
1955:					
Companion Life	15,984.00	799.21	1,038.96	1,838.17	11.5
Mutual, No. 1006	16,526.99	451.31	1,757.42	2,208.73	13.4
Mutual, No. 1007	33,428.12	792.20	3,689.11	4,481.31	13.4
Total	65,939.11			8,528.21	12.9
Total Jan. 1, 1951, to Dec. 31, 1955	328,417.48			46,329.30	14.11

TABLE 12.—*Commission and fee scales applicable to Local No. 445, International Brotherhod of Teamsters welfare fund, Victor D. Levitt, Jr., agent*

Amount of premium	A. Mutual of Omaha						B. Companion Life			
	Commission scale (No. 3)				Fee scale (S-3)		Commission scale		Fee scale	
	First year		Renewal							
	Agent	Overwrite	Agent	Overwrite	First year	Renewal	First year	Renewals	First year	Renewals
	Percent	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*
0 to $1,000	20.0	2.5	5.0	2	10.0	5.0	20.0	5	6.5	6.5
$1,000 to $5,000	20.0	1.5	3.0	2	10.0	7.0	20.0	5	6.5	6.5
$5,000 to $10,000	15.0	.75	2.0	1	10.0	8.0	15.0	5	6.5	6.5
$10,000 to $20,000	12.5	.75	1.5	1	7.5	8.5	12.5	5	6.5	6.5
$20,000 to $30,000	10.0	.75	1.5	1	7.5	8.5	10.0	5	6.5	6.5
$30,000 to $50,000	5.0	.75	1.5	.50	7.0	8.5	5.0	5	6.5	6.5
$50,000 plus	2.5	.50	1.0	.50	5.0	9.0	2.5	5	6.5	6.5

Mr. Albert W. Randall, manager, group department, Mutual of Omaha, testified before the subcommittee that—

> The reason * * * why they have incremental scales and decremental scales is more from the standpoint of convenience in handling the various entries insofar as service fees go and commissions go in breaking them down on your annual statement. But for all practical purposes they would be on a level scale.

He further expressed the opinion that those in Mutual responsible for such payments—

> thought they were justified because of the duties being performed * * *.[17]

According to Mr. Randall, Levitt "collects the premiums, issues the certificates, handles all changes in the policy, pays the claims, and handles the entire administration of the case."[18] He further brought out that Mutual's operating costs at that time were about 25 percent of premium; that this approximated what Levitt received; and that the fee paid Levitt during renewal years for servicing the policy likewise compared favorably with the company's operating costs.

Regardless of Mr. Randall's contentions, the subcommittee feels that the combined commissions and service fees paid Levitt on this case were too high for the services actually rendered and that other factors must have dictated these payments. In support of this feeling, attention is called to an incident concerning the local 445 welfare fund and the Anchor Motor Freight Corp. fund about which testimony was adduced at the subcommittee's hearings.

Levitt was administrator of both these funds and was included as a beneficiary under the policies issued in each case. In 1954 he submitted personal disability claims under both policies, approved them, and issued drafts in payment thereof to himself. The claims were in identical amounts, $1,180 each, or a total of $2,360, and covered the same period of disability. Mutual, at first, rejected the claims on the

[17] Ibid., p. 1210.
[18] Ibid., p. 1211.

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theory that Levitt as an employee of the funds could not be included in the coverage issued either. Subsequently, however, the company did pay both claims. According to Mr. Randall's testimony, Mutual paid because an official of Anchor Motor Freight advised that they had been paying premiums on Levitt since 1953 and considered him included in their coverage.

Testimony showed, however, that Mutual honored these claims after it received a memorandum, dated August 23, 1955, from John Cook of Companion Life, informing Mutual that—

> Levitt tells me * * * unless he receives a satisfactory letter concerning his eligibility as a fully covered individual under Mutual of Omaha's policy he is going to make immediate arrangements to transfer this business to another carrier.[19]

(B) NEW YORK CITY DISTRICT COUNCIL OF CARPENTERS' WELFARE FUND

This policy became operative on January 1, 1951, for life coverage with Companion, and May 1, 1951, for accident and health coverages with Mutual.

John G. DeFeo, of the Cardinal Agency, Inc., is the agent of record and receives from Mutual a 25-percent graded commission on first-year business and 7 percent graded on renewal business. In addition, he received an administrative allowance on the accident and health coverages which amounted to a level 11.5 percent from May 1951 to October 1952, when it was reduced to its present 3 percent.

The accident and health experience on this risk, as reported by Mutual on a questionnaire returned to the subcommittee and as amended by letter of January 5, 1956, reflects high commissions, service fees, and retentions for a case of this size.

Year	Premiums earned	Commissions and fees	Claims incurred	Refunds	Retentions	Percent of retentions to premiums earned	Percent of commissions and service fees to premiums earned
1952	$469,713	$63,733	$231,278	$132,749	$105,685	22.5	13.6
1953	987,151	132,499	781,421	0	205,729	20.8	13.4
1954	1,030,540	84,882	804,904	23,156	202,480	19.6	8.2

Companion Life, during the same policy years, paid DeFeo the following commissions and administrative allowances in this case:

Year	Commission	Administrative allowance
1952	$10,331.79	$8,128.44
1953	16,448.90	10,823.17
1954	12,614.52	12,269.52

Walter F. Martineau, executive vice president, Companion Life Insurance Co., testified that his company had "started off originally by paying (DeFeo of the Cardinal Agency) a 24-percent graduated

[19] Ibid., pp. 1220–1221.

commission, graded down from $5,000. That was the first-year commission. The second-year renewals are graded down to 3 percent. The commissions at the present time average around 3 percent." [20]

These figures indicate that DeFeo has been amply compensated in commissions and service fees for whatever services he has rendered in this case.

(C) JOINT WELFARE FUND, INTERNATIONAL UNION OF OPERATING ENGINEERS, LOCALS 14 AND 15

Accident and health experience under this policy from April 1, 1952, to March 1, 1955, was as follows:

Year	Gross premium	Service fees and commissions	Service fees and commissions as percent of gross premium	Claims
Apr. 1, 1952, to Apr. 1, 1953	$187,104.34	$30,281.69	16.2	$133,793.68
Apr. 1, 1953, to Apr. 1, 1954	185,573.44	29,063.89	15.7	175,827.04
Apr. 1, 1954, to Mar. 1, 1955	303,095.36	19,328.27	6.4	255,730.37

On April 30, 1952, the company entered into a group-insurance administration contract with Alphonse C. Corcillo, agent of record, under which Mutual agreed to pay the following service fees:

	First year	Renewal
	Percent	*Percent*
On the first $1,000 of adjusted premium	0	10
On that part in excess of $1,000 but not exceeding $5,000	0	12
On that part in excess of $5,000 but not exceeding $10,000	0	13
On that part in excess of $10,000 but not exceeding $20,000	0	13.5
On that part in excess of $20,000 but not exceeding $30,000	5	13.5
On that part in excess of $30,000 but not exceeding $50,000	10	13.5
On that part in excess of $50,000 but not exceeding $100,000	12.5	14.0
On that part in excess of $100,000 but not exceeding $250,000	14.0	14.5
On that part in excess of $250,000 but not exceeding $500,000	14.75	14.9
On that part in excess of $500,000	14.9	14.9

Correspondence in the files of Mutual indicated that around March of 1954, Mutual was going to change Corcillo's contract from the incremental scale to a level 4-percent service fee. In a revealing letter dated March 9, 1954, to Gale E. Davis, vice president of Mutual, Walter F. Martineau, executive vice president of Companion Life, stated:

> I don't know what your thinking is behind this drastic move, but it seems to me that you are jumping the gun and throwing away some $550,000 in premiums, written through the A. C. Corcillo Agency, alone.
>
> It is my thinking, and, mind you, I am not trying to substitute it for yours, that until the legislature enacts legislation, or the insurance department promulgates a regulation setting the maximum that can be paid for a "service fee," that your company continue on these risks, provided, of course, that they are profitable, or can be made profitable.

[20] Ibid., p. 1216.

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> It is entirely possible that the insurance department's thinking may resolve itself into a "no service fee" agreement, and if such is the case, all companies will have to do the work it is now delegating and, of course, all brokers and agents will have to abide by that regulation or legislation.
>
> Why give your competitor a chance to get on a risk now, with the possibility that you will be unable to dislodge him later.
>
> There is going to be legislation or regulation, make no mistake about that. However, the thinking of the Department's position has not as yet been solidified.
>
> What "service fee" you are paying and how it is being paid is not illegal. Up until now there is nothing in the law to regulate it and, naturally, there can be no violation of a non-existing law or regulation.[21]

The change to a level 4-percent service fee was made effective April 1, 1954, despite the representations of Mr. Martineau. Mr. Corcillo, the agent of record, has not switched the business to another carrier. However, Mr. Randall, of Mutual, testified that his company is still paying Corcillo service fees on the incremental scale in one case.

When Mr. Martineau appeared at our public hearings, the above letter was not in the subcommittee's possession, and he was unable to recall ever having written such a letter. However, it was later produced from Mutual's files and is incorporated as exhibit 98[22] in the subcommittee's hearings. By letter of January 18, 1956, Mr. Martineau explained that his previous letter "was simply a suggestion on my part to Mutual Benefit that they not reduce their administration or service fee to the extent that it would be economically unsound for an administrator to agree to do the work."

The subcommittee feels that some of the thoughts expressed in this letter not only supply an insight into the policy followed by Mutual and its affiliate, Companion Life, with respect to commissions and service fees but, more importantly, indicate a line of reasoning which it is believed is one of the basic causes of some of the problems and abuses in welfare and pension programs today.

Since Mr. Martineau's letter indicated that he was obviously of the opinion that the proposed cut in the service fee being paid Corcillo by Mutual would result in that company, and possibly Companion, losing the business written by him, perhaps it was necessary to agree to pay such high fees to get the business in the first instance. The question which then comes to mind is whether the fees were being paid for services rendered by the agent or because he could take the business away from, or give it to, whatever company he chose.

The philosophy expressed by Mr. Martineau in his letter—that the payment of service fees is entirely proper because it is not yet illegal—is one with which this subcommittee cannot by any means agree. It is very disquieting that it came from one who is now a high executive of a reputable company and formerly was an official of the New York State Department of Insurance. Such thinking is not only fallacious but reacts usually to the detriment of the beneficiaries for whom these

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[21] Ibid., p. 1215.
[22] Ibid., pp. 1214–1215

programs were created. It is felt further that this type of thinking has insidiously crept into this field to such an extent that it is now one of the major reasons why it is necessary to make the operation of these programs subject to a law capable of fully protecting the beneficiaries.

(D) THE ANACONDA GROUP

Mutual insures a number of small risks, representing the A. F. of L. craft union members employed by Anaconda Copper Mining Co. In addition, Mutual of Omaha insures four major groups, Anaconda Smeltermen, Butte Engineers, Butte Miners, and East Helena Smeltermen, under a single master policy. In June 1955, approximately 3,600 employees were covered under this program.

The claims ratio on this case has been high. In the policy year ending April 1, 1954, earned premiums were $424,232.45 and incurred claims, $524,897.70.

Commissions and fees charged against this risk have been at standard rates. In addition, however, a fee of one-half of 1 percent of premium has been paid to one Paul G. Pinsky of San Francisco under a contract dated April 5, 1955, retroactive to November 1, 1954.

Testimony showed that Mr. Pinsky is an insurance consultant for the Mine, Mill & Smelter Workers Union and that when this case was renewed in 1954 he was able to effect increased participation in the plan through his contacts with the union. Mr. Randall testified that Pinsky's fee is paid from Mutual's "portion of the retention, on the assumption that he was performing duties that would normally be performed by us, and he is doing it. He travels from San Francisco to Butte, Mont., four times a year." [23]

A letter introduced into the record revealed that Randall, as manager of Mutual's group department, wrote the company's general agent at Great Falls, Mont., on December 6, 1954:

> As you probably know, it was necessary to agree to pay a service fee to Paul Pinsky who is the union insurance representative to help in the control of claims. This is normally a function of the agent or agents of record on the case. In view of the fact that the present agents of record on this case are not performing this particular function, this was necessary. At the present time we are paying a full agent of record commission and the full managers overwrite as well as all expenses of the group administration in Butte, Mont. In view of the fact that we did not plan on this expense when bidding our retention factor and that it was necessary to allow a fee in order to retain the business for you, we know you will feel an adjustment in the commission presently being paid is in order.[24]

The amount of the fee paid Pinsky and whether he effected additional participation in the plan and the control of claims, as alleged, are of only incidental interest. Testimony showed that the policies in this case are in the name of the union which decides where insurance will be placed. The subcommittee therefore seriously questions the practice of paying a fee to a union consultant, located in San Fran-

[23] Ibid., p. 1226.
[24] Idem.

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cisco, to render services in Butte, Mont., when that consultant has some say "on the final determination of the case." Though Randall went on to say "that had nothing whatsoever to do with our paying him one-half of 1 percent," [25] the possibility that Mutual obtained this renewal because of this fee and/or paid it with that objective in mind is certainly not without support on the record. Moreover, the subcommittee believes that Pinsky's receiving compensation from the insurance company while acting as insurance consultant to the union presents a clear case of conflict of interest.

The subcommittee's inquiries at both Mutual of Omaha and Companion Life were limited in time and number of cases reviewed. Therefore the situations examined represent only a minor portion of the business of these firms which undoubtedly is on the whole capably administered. But, regardless of how minor the portion of ailments affected, the practices discussed are part and parcel of the ailments currently plaguing group welfare and pension programs to the detriment of the beneficiaries, which should be corrected. It is the subcommittee's earnest hope that this limited inquiry and disclosure will have a salutary effect on the group operations of both companies.

F. PHILADELPHIA FUR WORKERS UNION LOCAL 53 AND FUR DRESSERS & DYERS UNION LOCAL 196

1. INTRODUCTION

In the early summer of 1955, the subcommittee received information to the effect that a prospective eligible pensioner had been denied retirement benefits by the retirement fund of the Fur Dressers and Dyers Union Local 196. The circumstances appeared to merit investigation and a staff representative was sent to Philadelphia for this purpose. The investigation revealed that there were close financial and other ties between local 196 and local 53, the Philadelphia Fur Workers Union, and the investigation was broadened to encompass the latter.

Fur Dressers & Dyers Local 196 represented workers at the mouton manufacturing plant of Workman & Co., Sixth and Jefferson Streets, Camden, N. J. The company is a corporation owned by three brothers, J. A. Workman, Morris Workman, and M. S. Workman. Their work, until the plant closed in November 1954, consisted mostly of Government contracts for fur collars used on jackets for the Armed Forces. Israel Freedman, business manager of Philadelphia Fur Workers Local 53, was also business manager of local 196.

2. HISTORY OF LOCAL 196 HEALTH INSURANCE PLAN

Under terms of an agreement reached in 1946, Workman & Co. agreed to contribute 1.5 percent of gross payroll to a health insurance fund for its employees. In 1950, contributions were increased to 2 percent of gross payroll.

The union had complete control of the health insurance fund. The employer agreed to turn over the contributions to the union and no accounting was ever made to the employer and no other information

[25] Ibid., p. 1227.

given him. The contributions were sent to the union office and were deposited in a separate account at a Philadelphia bank.

Local 196 decided to self-insure the members. No trust agreement was drawn and the health insurance plan was merely handled by the officers of the local as part of the business of the local, although the funds were kept in a separate account.

Workman & Co. closed their plant on November 1, 1954, at which time a balance of $22,868.20 remained in the health insurance fund account.

3. HISTORY OF THE RETIREMENT FUND OF LOCAL 196

The retirement fund of local 196 was established by contract in October 1950, with an effective date of August 14, 1950. The fund was supposed to be set up in accordance with the Taft-Hartley Act with a trust agreement which was to be worked out by the parties. The contract was amended in April 1952, to provide for a contribution of 2 percent of wages earned instead of 2 cents per hour, effective June 9, 1952.

The parties could not agree to the terms of a trust agreement. The union insisted on credit being given employees for past service and the employer wished to start afresh on August 1, 1950, with no credit for past service. No plan was ever set up, although contributions were made regularly by Workman & Co., aggregating $12,573.55.

The checking account of the Fur Dressers & Dyers Union, Local 196 retirement fund was kept at Broad Street Trust Co. in Philadelphia.

The original signature card of the retirement-fund account of local 196 contained three names: Israel Freedman, Frank Brownstone, and Joseph L. Stein. All three signatures were required for withdrawal. Joseph L. Stein is the employer representative and is the attorney for Workman & Co., with offices at 225 West 34th Street, New York City. The trustees of the retirement fund were supposed to be the above 3 whose names were originally on the signature card of the fund account, the union members having 1 vote between them and the employer member (Stein) having 1 vote. Since eligibility requirements were never agreed upon, no benefits were ever paid out of the fund.

An examination of the local 196 retirement-fund checking account at the Broad Street Trust Co. revealed that the signature card was changed by a resolution filed on June 17, 1953, and signed by Charles Owens, as secretary of the retirement fund, replacing the original required signatures with those of Frank Brownstone and Alton H. Finck; Brownstone is an international officer and Finck is an officer of the local. The resolution was certified by Israel Freedman and sealed with the union seal. Stein was not aware of this change.

After the signature card had been changed, the funds were withdrawn and deposited in other banks. Of these funds, $6,000 were deposited at the Walnut Street Federal Savings & Loan Association in the name of the retirement fund and $6,716.40 at the Pennsylvania Federal Savings & Loan Association. In both cases, the signatures on the cards were: Frank Brownstone, Israel Freedman, and Alton H. Finck.

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4. INTERRELATIONS OF LOCALS 196 AND 53

When Workman & Co. ceased operations in November 1954, the funds ($22,868.20) remaining in the health insurance fund were withdrawn and deposited in the account of the health insurance fund of local 53, on February 15, 1955. This resulted from a so-called merger of the two health insurance funds under the terms of a formal written agreement between the officials of local 53 and local 196.

The assets of the pension fund were handled in much the same manner. The employer representative on the pension fund, Joseph L. Stein, testified at the hearings of the subcommittee on December 2, 1955, that a compromise had been reached with the union on the disposition of the pension fund. Under the agreement, $3,000 of the fund would be used to pay the vacation claims of the former employees of Workman & Co., $500 would be paid to Mr. Stein as attorney fees and expenses, and $250 to Harold I. Cammer as attorney fees and expenses. The remainder of the fund was then to be merged with the pension fund of local 53 with the provision that former members of local 196 would become eligible for the benefits of this fund, if they met the requirements, and would receive credit for the time of their employment with Workman & Co. when contributions were made for their benefit.

5. FUND INVESTMENT POLICY

Immediately prior to the merger, the local 53 health fund had $19,774.43 on deposit in its checking account. On February 24, 1955, a check was drawn on the local 53 health insurance fund in the amount of $25,000 payable to Harold I. Cammer as attorney, and on March 8, 1955, another check to Cammer was drawn in the amount of $15,000. On or before December 17, 1954, another $15,000 check had been sent to Cammer out of the account of the union (local 53). For this purpose the local had borrowed from local 53's health insurance fund the sum of $6,500 and from the 53's retirement fund the sum of $4,500. These loans have since been repaid without interest.

When asked about these payments to Cammer, Israel (Ike) Freedman, business manager of the local, stated that the fund invested in a mortgage, through Cammer as its attorney, in the amount of $40,000 at 5 percent interest. This mortgage was on property owned by the New Kinderland Camp Corp. and Camp Lakeland, Inc., and actually amounted to a prior claim in the amount of $40,000 on a $90,000 mortgage held by the Sylvan Lake Holding Corp.

The $90,000 mortgage is a consolidation of a series of 8 mortgages, 7 of which were once held by the International Workers Order, Inc. (IWO). The Supreme Court of New York found that the IWO was a Communist organization and ordered its liquidation by Alfred Bohlinger, the insurance commissioner.[26] Bohlinger was about to foreclose the mortgages when Harold I. Cammer organized the Sylvan Lake Holding Corp. which put up the money to purchase the assignment of the mortgages.

It was at this time, on December 17, 1954, that local 53 sent to Cammer the first $15,000 check and it was not until December 27, 1954, that the Sylvan Lake Holding Corp. acquired an interest in the

[26] 106 N. Y. S. 2d 953.

property. Therefore, it is a fair inference that the $15,000 sent by local 53 on December 17 was used by the Sylvan Lake Holding Corp. to acquire the mortgage. The local 53 fund did not acquire its interest in the mortgage until April 4, 1955. These facts indicate that the officers of local 53 were motivated by other considerations than the 5 5 percent return on the $40,000 investment.

Harold I. Cammer had suggested this investment to the officers of local 53 and, for this purpose, he organized the Fifty-Three Holding Corp., whose officers are Harry Lukacher, president; Benjamin Metcoff, treasurer; Israel Freedman, secretary; and Frank Brownstone, director. Brownstone is an international officer of the union and the others are officers of the local. The employer representative, whose signature is required to withdraw funds from the local 53 health insurance fund, was not named as an officer of the Fifty-Three Holding Corp. This employer representative is Lee Fuerstein, owner of Penn Fur Co., who approved of the investment but was surprised to learn that the mortgage is not in the name of the fund but is held by the Fifty-Three Holding Corp. created for this purpose. Cammer stated that he represented both parties in the transaction, but collected a fee from only one of them.

Harold I. Cammer, attorney, was a sponsor of a conference of the Civil Rights Congress in New York (Daily Worker, June 8, 1949, p. 4). The Attorney General of the United States cited the Civil Rights Congress as subversive and communistic, in letters furnished the Loyalty Review Board and released to the press by the United States Civil Service Commission on December 4, 1947, and September 21, 1948. The Attorney General redesignated the organization on April 4, 1953, and included it on the April 1, 1954, consolidated list of organizations previously designated. The Committee on Un-American Activities cited the Civil Rights Congress as an organization "dedicated not to the broader issues of civil liberties, but specifically to the defense of individuals who are either members of the Communist Party or openly loyal to it." The Daily Worker of May 26, 1954, reported that Harold Cammer was elected to the board of trustees of the National Lawyers Guild, New York City Chapter, for the year 1954–55. The Special Committee on Un-American Activities cited the National Lawyers Guild as a Communist-front organization.

After the liquidation of the IWO, Cammer organized the Sylvan Lake Holding Corp. which assumed the mortgage on Camp Kinderland and Camp Lakeland. The officers of this corporation were Simon Federman, president; Abraham Estersohn, secretary, and Sam Nelson. Federman testified before the Un-American Activities Committee on May 4, 1950, as a representative of the American Federation for Aid to Polish Jews. He appeared to oppose Communist control legislation but stated that he was never a member of the Communist Party.

The Daily Worker of November 12, 1951, reported that Simon Federman was to speak at a memorial meeting of the Civil Rights Congress. The Attorney General of the United States cited the Civil Rights Congress as subversive and Communist. Federman also spoke at the "Save the IWO" conference at the Hotel Capitol on January 26, 1952, against proceedings for dissolution of the International Workers Order (Daily Worker, Jan. 28, 1952).

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Camp Kinderland and Camp Lakeland are operated on property covered by the $40,000 mortgage. The Joint Legislative Committee of the State of New York on Charitable and Philanthropic Organizations conducted hearings during August 1955. Dave Greene, represented by Ralph Shapiro, an associate of Harold Cammer, of 9 East 40th Street, New York, stated that he had been manager of Camp Lakeland, Inc., which includes Camp Kinderland, since March 1954. When asked if he gave regular lectures at the camps, Greene declined to answer on the grounds that his answer might tend to incriminate him. He submitted to that committee the cultural program for 1955 for Camp Kinderland, which contains a recommended list of reading material including writings by Foner, who was identified as a Communist Party member during the New York State hearings; also books by Howard Fast and Shirley Graham, and such Communist publications as Jewish Life Magazine and Peoples Artists Song Books. Mr. Greene was also mentioned in the opinion of Justice Greenberg, of the Supreme Court of New York, as a well-known Communist Party member who was also an active official of the International Workers Order.

Israel Freedman, business agent of local 53 and trustee of the local 53 welfare fund, testified in the hearings of the subcommittee on December 5 and 6, 1955, that had he known of the Communist connection of these camps he would not have allowed the investment of the $40,000 to take place. One of the most obvious duties of trustees is a thorough investigation of a contemplated investment of such funds. The merest inquiry into the management of Camp Lakeland and Camp Kinderland would have revealed the fact to Freedman or to any other trustee that at the time of this $40,000 investment, these camps were managed by Dave Greene, a notorious Communist Party member and active official in the now defunct International Workers Order. There appears to be little doubt that half the assets of the insurance fund of local 53 have been channeled into investments where the primary goal was not a safe and reasonable return for the welfare of the beneficiaries, but the bolstering of an enterprise devoted to the overthrow of this Government.

G. SOCIAL SECURITY FUND OF THE DISTILLERY, RECTIFYING, WINE AND ALLIED WORKERS INTERNATIONAL UNION OF AMERICA, A. F. OF L.

This welfare fund was established in 1948 through collective-bargaining negotiations. It provides broad life and casualty insurance benefits for over 23,000 distillery workers and their dependents throughout the United States and Canada. It is financed entirely by contributions from some 550 employing firms in the wine and liquor industry. The annual income of the fund currently runs to about $3 million. The fund is managed by 6 trustees, 3 representing the union and 3 representing the employers. Its main office is in Union City, N. J.

1. PAST ADMINISTRATION

Insurance benefits to covered employees were provided through the Security Mutual Life Insurance Co. of Binghamton, N. Y., from October 1949 to September 1955. During most of that period this car-

rier paid high fees and commissions to the broker and agent, Louis B. Saperstein, of Newark, N. J., and to the international union through one Sol Cilento, who at the time was an international officer and a union trustee of the welfare fund.

Certain aspects of this welfare fund were investigated by New York authorities in 1954. As the result of this investigation, it was alleged that Saperstein had kicked back portions of his commissions to Cilento and to two other individuals; one George Scalise, ousted president of the Building Service Employees' International Union, who was sentenced in 1940 to 10 to 20 years for stealing union funds; and one Anthony Carfano, alias "Little Augie Pisano," a prohibition era racketeer and associate of the late Al Capone. It was further alleged that some $540,000 had been "kicked back" by Saperstein to these three individuals over a 7year period, $299,000 of it since September 1, 1953, the date a New York law became effective making it a crime for a labor official to accept a bribe. On February 15, 1955, a New York County grand jury indicted Cilento, Scalise, and Carfano for bribery and conspiracy. Following petition, however, the indictment was dismissed on May 17, 1955, by Judge Jonas Goldstein, general sessions court, New York City, who, at the same time, urged the enactment of laws to punish such "morally reprehensible and ethically indefensible acts." In noting that Cilento as a union trustee was criminally unaccountable for his misdeeds, Judge Goldstein commented: "Unfortunately, a trustee of a union welfare fund, except when he commits larceny, is not chargeable with a crime for violating his trust even though he simultaneously be an officer of the union."

2. PRESENT ADMINISTRATION

In November 1955, staff members of the subcommittee visited the offices of the social-security fund at Union City, N. J., to ascertain what changes, if any, had transpired since the 1954 New York investigation. Messrs. Melvin M. Dykes and Victor Feingold, manager and counsel, respectively, of this welfare fund, were interviewed at that time. Both later testified at the subcommittee's hearing on December 2, 1955.

According to the testimony, Sol Cilento resigned after 1954 as a union trustee of this welfare fund and as an officer of the international union. He continues as executive vice president of this union's powerful local No. 2 in New York City. Cilento was replaced, both as a union trustee and as an international officer, by George J. Oneto. The other two present union trustees of this fund are Joseph O'Neill and Mortimer Brandenburg, both of whom are international officers of the union.

It was also disclosed in testimony that on October 1, 1955, security mutual was discontinued as insurance carrier and this welfare fund became self-insured. Shortly thereafter, Dykes' salary as manager of the fund was increased from $13,000 to $25,000 per year with an additional 2 months' salary Christmas bonus arrangement. Feingold's retainer was increased from $10,000 to $25,000 per year. Dykes admitted in his testimony that he is a nephew of Sol Cilento by marriage and added that he has been manager of this welfare fund since 1948. He claimed a working knowledge of insuranace matters which was gleaned from courses in New York night schools. He admitted having no previous experience in the insurance field. He had for-

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merly worked as a clerk in local No. 2, of which Cilento is an officer. Although Dykes was manager of this fund at the time Saperstein was making the alleged kickbacks to Cilento and the others, he testified he was not aware of such transactions. It was also established that this welfare fund has engaged no full-time professional or actuarial personnel despite the fact that it is self-insuring a risk approximating $3 million annually.

Each of the 6 welfare fund trustees receives $1,200 a year plus reimbursement of expenses incurred in attending meetings of the board of trustees.

According to the testimony, two of the union trustees of this fund, in addition to receiving salaries as union officials and a fee and expenses as trustees, also are paid as welfare representatives of the fund. One of these, George J. Oneto, is secretary-treasurer of the international union, a trustee of the welfare fund, and also welfare representative for local No. 1 of New York City. It was testified that in his position as welfare representative, Oneto receives $735 a month from the fund. Another, Mortimer Bradenburg, in addition to being a trustee, is vice president of the international, president of local No. 2, New York City, and welfare representative for the same local. According to testimony adduced, he receives $773.35 a month from the fund as welfare representative.

The third union trustee, Josep D. O'Neill, is permanent chairman of the board of trustees, president of the international union, and was, at least as of October 1954, president of local 62 in Chicago, Ill.

During the testimony, it was brought out that at a meeting of the board of trustees on July 20, 1955, an employer trustee questioned this situation of union trustees holding these various positions in the light of an earlier statement by George Meany, president of the then A. F. of L., to the effect that no paid union employee should be a paid welfare representative. It was further testified that, according to these same minutes, Chairman O'Neill replied that Mr. Meany had considerably altered his position (in this regard).

Testimony at the hearings also developed that Edward O'Neill, son of Joseph D. O'Neill, acts as his father's administrative assistant in his capacity as permanent chairman of the board of trustees. The fund reimburses Edward O'Neill for expenses incurred in so assisting his father, and also pays him $800 a month as a welfare representative.

Edward O'Neill was, as of October 1954, business agent for local 62, Chicago, of which his father was, as of that date, president.

Another son, Thomas O'Neill, according to the testimony, receives $320 a month as a welfare fund representative.

3. COMMENTS

The subcommittee, in reporting these situations, definitely does not want to convey the impression that this welfare fund, its operations and administration, is bad throughout. The subcommittee has no evidence to support such a conclusion, and the inquiry which was made by the staff was on a very limited basis. According to figures and information supplied by fund officials, reserves and surplus of this fund as of March 1956, amounted to $3 million, of which $2.5 million is invested in United States Government bonds, and the remainder deposited in banks to cover current claims and operating expenses of

the fund. Monthly audits are conducted and an annual report is prepared by certified public accountants. The report reflecting the financial condition of the fund and containing, among other things, a statement of the assets, reserves, liabilities, and total annual income and expenses is printed and distributed. Further figures supplied were to the effect that total administration costs for a 7-year period of operation ending September 30, 1954, were 7.86 percent of contributions; accident and sickness benefits totaling over $7 million, and death claims totaling $1.7 million had been paid from the inception of the program and up to April 30, 1955.

However, there are definite phases of the administration and operation of this fund concerning which the subcommittee has some reservations and about which it feels it must comment.

The subcommittee has repeatedly questioned the propriety of payments for welfare functions to individuals who hold other full-time paid positions, whether they represent union or management. It is extremely difficult to understand just how the individuals in this case could competently fulfill the obligations and duties attendant to the 3 and 4 positions they held.

With respect to Edward and Thomas O'Neill, sons of the permanent chairman of the board of trustees, and their holding both local and welfare fund positions, this situation certainly suggests a possibility of nepotism on the part of Mr. Joseph O'Neill.

The substantial increases in salary received by the manager of and counsel to the fund at the time it became self-insured perhaps can be justified. However, at least with respect to the manager, when consideration is given to the fact that he admittedly had little insurance or business experience, other than having worked for the international union and one of its locals, to qualify him for such a responsible position; to the fact that he was manager of the fund at the time of the alleged kickbacks from the broker, Saperstein, to Cilento; and to his relationship by marriage to Cilento, the subcommittee feels that it is justified in viewing such an increase critically.

All of these procedures may be proper. However, they are certainly practices which can lead to abuse, can result to the detriment of the benficiaries of the fund, and which the subcommittee views with extreme concern and believes should be corrected.

H. UNITED ASSOCIATION OF JOURNEYMEN AND APPRENTICES OF THE PLUMBING AND PIPEFITTING INDUSTRY OF THE UNITED STATES AND CANADA, A. F. OF L.

In addition to actual abuses in welfare funds, the subcommittee encountered two cases wherein local unions engaged in reprehensible practices, contrary to the laws of their own international, under the guise of welfare plans.

In these two cases there actually were no welfare plans or programs in existence. The term has been applied to certain operations of a union local in order to acquire a semblance of legality insofar as the international union is concerned. The usage of the term welfare plan in these instances tends to discredit bona fide welfare plans. For this reason, information concerning these two operations is being included in the report.

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1. LOCAL UNION NO. 102, KNOXVILLE, TENN.

This local is composed of journeymen and apprentices eligible to work in (1) the jurisdiction of the building and construction trades department of the A. F. of L., and (2) the jurisdiction of the metal trades department of the A. F. of L. As of April 30, 1955, this local had a membership of 2,356 persons.

Included in the jurisdiction of the local within past years have been major construction jobs in connection with atomic-energy installations at Oak Ridge, and with the Tennessee Valley Authority. During the time that these jobs were in process, large numbers of plumbers, steamfitters, and steamfitter welders worked in the area and came under the jurisdiction of local 102. At times these crafts embraced as many as 25,000 men. As the construction peak rose and fell there was, of course, a corresponding rise and decrease in the number of such employees.

Local 102 could not fill these job orders from its own membership; members of the United Association of Journeymen from other locals came into the area to work. Though the number of members of the association employed in the area fluctuated greatly during the period 1943–55, the membership of local 102 did not change accordingly since, generally, it refused to take these men from other locals into its membership. This is contrary to section 162 of the constitution, bylaws, rules of order, and jurisdiction of the association. Section 162 provides, in effect, that a member shall pay dues to the local having jurisdiction in the area "as soon as he accepts employment in their locality," and closes his account with the local to which he had been attached as soon as the latter is notified of his employment in the new locality.

The membership of the local has increased, to some extent, but the increase falls well behind the increase in the number of United Association of Journeymen members working in the jurisdiction of local 102.

Under the procedure followed by local 102, a journeyman member from out of the area first reports to the headquarters of the local. He cannot proceed directly to any job and will not be employed by a contractor until he has been referred to the job by a business agent or official of 102. Though these out-of-town members must contact the local, prior to working, the union does not maintain any permanent and complete record of these workers and is unable to report at any given time with accuracy the number of such members working in the area.

Beginning some years ago, apparently in about 1942 or 1943, so far as could be determined, local 102 instituted a practice commonly referred to as "doby." The expression is a colloquial contraction of "give me the dough boy." The practice simply consists of collecting a fee from out-of-town workers for the privilege of working in the area. "Doby" is not paid by members of the local itself, but only by members from other locals. Thus, the imposed limitation of membership enabled the local to collect more "doby." Further the proceeds from "doby" are all kept in the local and no percentage is sent to the international, as is done with respect to dues.

The amount of the "doby" payment varies. In the instance of local 102, so far as could be determined, the amount has been $2 per week

since sometime in 1952; prior to that date it was $1. Apprentices seldom pay "doby" but when they do it it is generally a lesser amount than paid by regular members.

Subcommittee investigators received a number of estimates as to the amount of "doby" collected by local 102; one was that between 1943 and 1949 "doby" income approximated $40,000 a week; from 1949, due to reduction in the working force in the area, the estimated income from this source ranged between $400 to $6,000 a week. The subcommittee desires to emphasize that the above are estimates only; the figures for the period 1942 through 1950 were not available at local 102. The figures available for the period 1951 to April 1955 were the union's own and impossible to verify. However, it was generally admitted by union officers and others interviewed that the practice of collecting "doby" has been in effect; that thousands of members paid "doby"; that it was paid as far back as 1942 or 1943, and the moneys secured from this source are deposited with, and expended as, general funds of the local.

Under section 158 of the constitution of the United Association, as revised and amended at Kansas City, Mo., September 10 to 14, 1951, practices such as the collection of "doby" are forbidden. The section provides, in part—

> * * * that when a member deposits a clearance card in the proper sister local * * * he shall not be subject to "waiting lists" * * * Nor shall any monetary contribution be accepted from him for the privilege of working.

(A clearance card is provided a member, for a fee, when he desires to leave the jurisdiction of his own local to work in the jurisdiction of a sister local.)

From information developed it appears that international representatives advised local 102 officials of the fact that the collecting of "doby" was contrary to the constitution of the international sometime in late 1951 or early 1952.

Minutes of meetings of local 102 for the period January 1950 through July 1955 were available and were received. There was no mention of "doby" as such. However, the minutes of a meeting of July 24, 1952 reflect, under new business that—

> Brother Elliott brought up about the $1 charged to out-of-town men. A motion was made and seconded to remove any charge of $1 from the books. Motion carried. A motion was made and seconded to charge all out-of-town men $2 per week for a sick and welfare fund payable in advance. Motion amended. This motion to stay on the book for 2 years. Motion carried.

The secretary who kept the above minutes, in longhand, was unable to shed any light on how the "motion [was] amended."

Under the provisions of the above motion, local 102 continued to collect "doby" but labeled it contributions to a sick and welfare fund. This procedure was still in effect at the time of the subcommittee's inquiry in July 1955. Income from "doby" is carried on the books of the local under a heading of "Local Assessments," and is included in such figures in all reports to the United Association. The financial secretary was questioned as to whether this procedure is followed

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in order to not disclose to the association the receipt of such "doby" payments. He denied that there were any ulterior purposes in how this money was being reported and was of the opinion that the association was cognizant of its being included in local assessments.

The job steward on each site informs the new employees of this fund and the necessity of their contributing to it. Each new worker is provided with a small card captioned "Plumbers and Steamfitters, Local No. 102—Relief and Welfare." The cards are issued for each quarter and are numbered in longhand. On the reverse side are spaces for entering the dates of payment. The job steward makes his collections on the first day of each week. At that time, in addition to collecting the money, he picks up the card of each man paying; the card is brought back to union headquarters; the date of the payment is stamped thereon by the financial secretary at the time the steward turns in the money. The card is then returned to the member. The job steward also prepares a list whereon he names all individuals paying him dues, assessments, initiation fees, and "doby," and the amounts each has paid in each of these categories. "Doby," or payments to "relief and welfare" are not entered as such on this list but are placed in the column "local assessments."

From the lists prepared by the job steward it is possible to pick out those paying to "relief and welfare" and those individuals who pay dues to the local. However, local 102 has no records which can be used to insure that the job stewards are turning in all of the money they receive for relief and welfare. They depend on the stewards on each job to maintain contact with out-of-town men, and to collect from them the payments to relief and welfare.

The possibility of an out-of-town member not paying to relief and welfare was explored. This was stated to be improbable because when an individual did not pay, this fact was brought to the attention of his home local, which will not allow him to work in his own area until he pays "doby" to the foreign local. It was further stated that if a man did not pay, it was always possible to find an excuse for having him fired—"something always happens to a man who refuses to pay."

Union officials interviewed did not deny that steps were taken with other locals, if necessary, to make sure that an out-of-town member paid all local assessments; that steps would be taken to have a nonpaying individual fired, was denied.

Mr. Edward Richie, financial secretary of local 102, fully admitted that no welfare benefits are paid from the sums accumulated from payment to relief and welfare. It was his contention, however, that the men understood that this was not a welfare fund and that no benefits would be paid therefrom. The subcommittee staff was told that some of the men did consider that they were contributing to a welfare fund, and they did expect benefits. None of the "doby" men actually interviewed however were of that opinion. The unlikelihood of the men thinking that this was a real welfare fund is enhanced by general knowledge that the payment of "doby" is prevalent in the construction trades; that other locals of the united association exact such payments, and that other locals cooperate in enforcing the "doby" charged by local 102.

From the job stewards' reports, the subcommittee staff was able to determine the amount of money which was turned in by them as "doby"

payments during the years 1951 through 1954, and for the months of January through April 1955:

Fiscal year ending—	Total membership at year end	Local assessments [1]	Net worth at year end	Increase	Amount of "doby" payments in year
June 30, 1949		$18,472.00	$149,186.01		
June 30, 1950	885	29,107.00	151,289.58	$2,103.57	
June 30, 1951	1,202	56,100.75	197,384.08	46,094.50	[2] $13,093.00
June 30, 1952	1,112	38,486.05	204,507.64	7,123.56	7,120.50
June 30, 1953	1,137	39,032.40	192,836.59	(11,671.05)	9,419.25
June 30, 1954	2,232	97,183.53	255,921.66	63,085.07	42,185.00
Apr. 30, 1955	2,356	[3]	[3]	[3]	[4] 57,663.50
Total					129,431.25

[1] According to audit report prepared by certified public accountant.
[2] For 6 months ending June 30, 1951.
[3] Not available.
[4] For 10 months ending Apr. 30, 1955.

NOTE.—Figure in parentheses represents a decrease.

The above table shows the amount of "doby" in relation to the local assessments and the various increases and the decrease in net worth for fiscal years. Though the "doby" receipts for the first 10 months of the year 1954–55 were heavy, at the time of the staff's inquiries in July 1955 there were relatively few "doby" men in the area.

Because of the inclusion of these "doby" payments in the general fund of the local, a review was made of audit reports for fiscal years 1951 through 1954 to determine if there were extraordinary expenses which would necessitate the collection of "doby" or to which such income might have been directed. The only pertinent information noted was that (1) in late 1951 the local purchased a building for its headquarters at a cost of $72,000; at present, this building is shown on the local's balance sheet as "Building and improvements—$97,549.35"; (2) the local gave parties for the membership in 1954, 1953 and 1952, the costs of which were $4,613.74, $6,939.79, and $357.44, respectively; (3) the operating costs of the local, as far as could be ascertained from these audit reports, were approximately:

For year ending:	*Percent of income*
June 30, 1951	30.1
June 30, 1952	48.4
June 30, 1953	60.2
June 30, 1954	30.0

The subcommittee cannot state positively that $129,431.25 was all that was collected as "doby." Further, it is impossible, from union records, to state just how much the stewards should have collected as the union maintains no separate lists of out-of-town members. Attempts were made to secure this information from the various contractors in the area but though they could give the names and numbers of the men who had been in their employ they did not know just which ones were members and which were from out of town.

The subcommittee does not intend to argue the merits of paying "doby"—of making men pay to work. The United Association considers the practice wrong; its constitution specifically forbids it. It is hard to understand therefore how it continues on a large scale without the association taking steps to have it stopped.

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The subcommittee does condemn the practice of collecting this money under the subterfuge of contributions to a relief and welfare fund.

2. PIPE FITTERS LOCAL UNION NO. 211, HOUSTON, TEX.

During the years 1951 to 1954, local No. 211 had a sick and welfare fund which was made up from "doby" payments. In 1954, at the instructions of the United Association, the fund was discontinued. "Doby" payments varied between $1 and $8 per week per man; the reasons for this variation could not be determined. There were never more than 500 "doby" paying members in the area at one time.

Minutes of meetings of local 211 showed that the fund was originally agreed to by the membership early in 1951. At the time there were many large construction jobs in the area. Union officials said that they knew at the time that the collection of "doby" was contrary to provisions of the constitution of the United Association, and they made no attempt to set the welfare fund up in accordance with the Taft-Hartley Act. However they went ahead because as they said many other locals of the association had similar sick and welfare funds.

According to the secretary-treasurer of the local, approximately $90,000 was collected during the existence of the fund, and there was approximately $25,000 in Government bonds and cash at the time the fund was discontinued.

Records made available, however, from the aforementioned officer reflected that payments to the fund, during the period, February 1951 through July 1954, totaled $94,602.75, and at the time the fund was discontinued it had a deficit balance of $419.69. The following table will reflect the operations of the fund as found in the records provided the staff by the secretary-treasurer:

		Percent
Payments: February 1951 through July 1954:		
"Doby" payments	$94,602.75	
Election day contributions	880.40	
	95,483.15	
Donations: Benefits paid, February 1951 through July 1954	37,682.86	[1] 39.8
Expenses	20,880.36	22.1
Transfers to building fund not returned to sick and welfare fund, per records	37,264.62	39.4
Total paid out	95,827.84	
Deficit at discontinuance of fund	(344.69)	
Deficit in fund per records of local	(419.69)	
Less error in computing donations for May 1951	−75.00	
	(344.69)	

[1] Percentages are of "doby" payments.

From the above it will be seen that of the money collected only 39.8 percent or $37,682.86, was returned in the way of benefits. With respect to benefits, the records showed that generally speaking the minimum payment was $25 and the maximum $100. Benefits were not paid to the individuals paying the "doby", but only to members of local 211 who, of course, did not contribute to the fund. It was admitted that there was no schedule of benefits, nor any established pattern followed in paying them. The records showed only that a

benefit payment had been made and to whom. There was no information as to the purposes for which the benefits had been paid. It was stated that it was also the practice to establish a special fund to receive donations for a sick member; the amounts collected through donations always exceed direct grants from the fund.

The financial secretary advised that at one time approximately 28 stewards were collecting this "doby." He admitted that it had been rumored that the stewards did not turn in all the money collected, but claimed that he had no information or evidence to substantiate these stories. He further pointed out that he was only accountable for what the stewards turned in. The stewards issued numbered receipts to those workers who paid "doby"; carbon copies of those receipts were returned to the union. It is believed that no checks were made to ascertain if all "doby" payments were properly receipted and transmitted to the union.

A trifle over 22 percent of the "doby" payments, or $20,880.36, went for expenses. These expenses broken down were as follows:

Expenses:	
Welfare committee	$6,893.28
Secretarial expenses	6,240.00
	13,133.28
Other charges to fund:	
Transferred to joint apprentice committee	4,573.50
Christmas donations	880.40
Organizing reimbursement	500.00
Transfer of collection for disabled members	443.18
Delegation to convention	1,350.00
	7,747.08
Total	20,880.36

It will be seen that it took $13,133.28 or 13.8 percent of the "doby" payments to expend $37,682.86, in benefits. This would appear to be expensive administration. Why transfers to an apprentice committee, organizing expenses, and expense for sending a delegation to a convention should come from funds received for a sick and welfare fund was not answered.

The subcommittee applauds the action of the United Association in bringing about the discontinuance of the sick and welfare fund. It is sincerely hoped that it will take similar action with regards to (1) the welfare fund of local 102 in Knoxville, and (2) several other, unidentified funds, mentioned by the secretary-treasurer of local No. 211 at Houston.

A copy of this report will be transmitted to the United Association so that they will be officially aware of the situation in Knoxville and be in a position to take appropriate action.

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VIII. STAFF CONFERENCES OF RECORD

Four conferences of record were held by subcommittee staff members with insurance, banking, industry, and labor representatives. These are summarized below very briefly; in fact, space limitations have made these synopses mere thumbnail sketches of conferences which in each case were informative and thought-provoking. Transcripts of the conferences are on file with the subcommittee.

A. INSURANCE REPRESENTATIVES PANEL DISCUSSION

In response to an invitation extended by the subcommittee's chief counsel, the following representatives of the insurance industry joined with subcommittee staff members on August 4, 1955, in Washington, D. C., in a discussion of pension and welfare plans: Ray M. Peterson, vice president and associate actuary, Equitable Life Assurance Society of the United States; C. Manton Eddy, vice president and secretary, Connecticut General Life Insurance Co.; Edmund B. Whittaker, vice president, Prudential Insurance Co.; Reinhard A. Hohaus, vice president and chief actuary, Metropolitan Life Insurance Co.; Edmund P. Tobin, president, Union Labor Life Insurance Co.; Robert A. Crichton, counsel, American Life Convention; Charles D. Williams, actuarial assistant, Life Insurance Association of America; Paul H. Walker, assistant counsel, Life Insurance Association of America; Robert R. Neal, Bureau of Accident and Health Underwriters, Health and Accident Underwriters Conference.

1. TYPES OF INSURED PENSION PLANS

The discussion opened with an explanation of the two major types of insured pension plans: the deferred annuity, and the deposit administration contracts.

The distinguishing features of the deferred annuity are: (1) the moneys are allocated immediately to accounts of individuals when contributions are paid; (2) the insurance company is fully responsible for the benefits to be provided, and (3) the plan may be applied to small groups.

The deposit administration contracts differ in that: (1) the employer contributions are placed in an unallocated pool which accumulates interest at a guaranteed rate until an employee retires, at which time the money is withdrawn to purchase an annuity for the individual; there is no allocation of moneys to individuals prior to retirement; (2) the employer has the sole responsibility for the adequacy of the fund until the individual retires, at which time the responsibility with respect to that individual shifts to the insurance company, and (3) this type of contract is conveniently applied, generally speaking, to larger groups—100 or more persons.

2. GROUP INSURANCE PLANS VERSUS CORPORATE TRUST PLANS

(A) CHARGES FOR ADMINISTRATION

The subcommittee's chief counsel mentioned that various sources had suggested that the insurance industry was not in a favorable competitive position to write group annuities because of an alleged 5-percent "loading" charge which was added to the cost of the contracts. One spokesman replied that there was no merit to the assumption. In support of this contention, another stated—

> The insurance company determines a certain price that it feels it should have in order to promise to pay a certain benefit. That is made up of three elements: an interest assumption, a mortality assumption, and a provision for expenses and contingencies. If the insurance company doesn't need that 5 or 8 percent, then the actual cost of the program emerges through the dividend or the surplus distribution process.

It was stated that in actual practice the expenses charged approximate only 1 to 1½ percent of contributions, and this includes commissions, State premium taxes, and all administrative expenses.

(B) TAX DISADVANTAGES

With respect to the tax disadvantages of an insured plan as opposed to the corporate trust type plan, one conferee said, "I think, as to the Federal income tax, there is plenty on the record as to the discrimination which we now suffer." The conferees explained their policy thus, "* * * our position has always been that we were not asking the banks to be taxed, but that the insurance companies be eliminated from the tax. * * *" (Provisions to correct this are included in a bill already passed by the House.)

In addition to the Federal income tax, it was pointed out that insurance companies are subject to a 2-percent premium tax in about half of the States where business is done. The premium tax on annuities, however, averages about three-quarters to seven-eighths of 1 percent because it is applicable in about 50 percent of the cases, it was stated. "There is evidence that States are showing a tendency to reduce or eliminate premium taxes on annuities, recognizing the difference between payments for annuities which are essentially thrift and savings, and for future benefits, as against insurance payments which are for current protection."

(C) INVESTMENT LIMITATIONS

The consensus of the panel was that the insurance industry has not found the limitation of its investments in common stocks to three percent in New York, for example, as against a recent law sanctioning investments in stocks up to 35 percent for the normal type of trust, a competitive disadvantage. "We do not feel that the New York law relating to the investments of life insurance companies is unduly restrictive," said one representative. He added that his company has found other satisfactory avenues of investment.

The theory was advanced that if the employer invests in common stocks in order to enjoy capital appreciation to offset future increases

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in pension obligations or to permit him to augment his pension promises, the successful outcome will depend to a large extent on whether the Internal Revenue Service requires him to take credit for capital appreciation by reducing his current contributions. "If this happens," it was explained, "the capital appreciation flows solely to the employer's benefit and not to the employee's benefit * * *" and thus will not be available at some future time to provide increased pension benefits.

3. LEGISLATION

(A) FEDERAL VERSUS STATE

Concerning legislation, one spokesman said, "* * * we feel that any Federal legislation in this field should be of a type which would accomplish its purposes through an amendment to the Taft-Hartley Act, and should be limited to disclosure provisions pretty much along the lines of the so-called Gwinn bill, which is H. R. 9705." He added that any legislation beyond disclosure which relates to insurance should be at State level and should apply only to joint-trustee union welfare plans as contrasted to the unilateral type of plan.

The distinction between the two types of plans was based upon a comparison of responsibility. Explained one of the conferees, "In the one instance, you have trustees who are accounting for moneys for the benefit of all employees, and you have the other case where the employer has bargained for benefits as such; so long as adequate benefits are provided in compliance with the bargaining agreements, then the supplying of those benefits fulfills the obligations, the contractual and the bargaining obligations, of the employer." He added, "Our distinction is based upon the trust element." This position received further support from the other insurance representatives, with this added observation, "None of us saw any necessity for any legislation to curb abuses in pensions because we couldn't find that there were any."

(B) DISCLOSURE

It was stated that the attitude of the insurance industry with respect to what information should be disclosed (on the joint trusteed type plan) follows the basic provisions of the Gwinn bill, or something closely akin thereto. "As contemplated," it was said, "there are basic facts which would be of benefit to employees and to the public at large." In this connection conferees mentioned such things as the amount of commission paid, and the basic retention figures of insurance companies.

One representative cited a portion of a speech which he made on pensions before the Commerce and Industry Association of New York. He stated then that there is a need for governmental supervision of trusteed pension plans "that will require full disclosure of a plan's financial operations, funding assumptions, magnitude of reserves and contributions, and also require advance approval of all statements to employees describing benefits. In short, a form of supervision that will encourage a high order of responsible conduct and yet preserve the unique characteristics of trusteed plans as contrasted with insured plans." It was conceded that inherent in the proposal was the fact that an administrative agency should be dele-

gated sufficient powers to enforce the disclosure statute. No position was taken as to whether the administrative machinery should be established at the Federal or State level. On this particular aspect of the problem, one representative suggested the Public Law 15 approach. It was his opinion that Federal laws could be enacted in this particular field which would apply so long as the States did not enact laws governing the subject matter. The proposition was advanced as "a sort of license for the States, or a notice to the States, to act in this field. And once they act, then the Federal law would not apply."

The insurance industry apparently had not crystallized its thinking as to which agency should receive the disclosure reports in the event that legislation was enacted at the Federal level. One person suggested that "One agency to whom that disclosure might be made would be the Internal Revenue Service, along with the other reports that are made with respect to qualifying the plan and supporting tax deductions from year to year."

4. COMMISSIONS

The feasibility of enacting legislation which could regulate commissions was discussed at some length. One conferee emphasized, "Permit me to say the life-insurance business, as such, through its organizations has certainly not taken a position favoring regulation of commission rates." He went on to say that assuming such regulation was necessary, it should take place at the State level. In reiterating the feeling of the insurance industry, he added, "We have always taken the position that any regulatory legislation, if necessary at all, should be at the State level, and not at the Federal level." In response to the question as to whether or not the insurance industry has a method of self-policing to curb abuses, this person replied, "The answer is 'No.' We have no policing arrangements through any organization of any type in the insurance business. The companies operate independently and in strict competition with each other."

B. BANKING REPRESENTATIVES PANEL DISCUSSION

On August 10, 1955, members of the subcommittee staff met in New York City with representatives of certain banks which do a large volume of trust business.

Representing the banking industry were G. C. Barclay, vice president, City Bank Farmers Trust Co., and president, trust division of the American Bankers Association; E. B. Gardiner, vice president, Chase Manhattan Bank, and chairman of New York State Bankers Association's committee on employee benefit funds, and chairman of the Corporate Fiduciary Association of the New York committee on employee benefit funds; B. Frank Patton, vice president, Guarantee Trust Co.; Anthony J. Kearshes, vice president, Manufacturers Trust Co.; Wallis B. Dunckel, vice president, Bankers Trust Co., and chairman of American Bankers Association's committee on employee benefit plans.

The subcommittee was represented by Paul J. Cotter, chief counsel and staff director; Louis S. Reed, research director; Francis X. Plant, chief investigator, and Louis M. Solomon, consultant.

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1. CONCENTRATION IN NEW YORK AREA

About $5 billion in pension trust assets are handled by New York City banks. The first pension trust division in the Nation was set up by the Bankers Trust Co. in 1938 and New York banks have been active in this field since that time. Many of these funds are centered in New York because it is the hub of the securities market and since most of the larger corporations already had New York banking connections, it was natural for them to place their trust business where they already had satisfactory relations.

2. POSSIBLE ADVERSE EFFECTS OF CONCENTRATION

None of the bankers could see any undesirable effects arising from concentration of trust funds within a few banks. None of these funds had grown to an extent where the bank or trust company could exercise effective control of a corporation through its stock voting powers. They admitted that the cumulative voting power of stock held in these pension trusts would undoubtedly make the banks substantial stockholders, but doubted that they were the largest stockholder in any given case.

"We haven't reached a point in any one of them, I don't believe, where we have ceased buying because of the total holding," one banker pointed out. It was observed that while collectively all the banks' pension trust funds might be controlling, no single bank held a significantly large share. With respect to actually voting the issues held, the bank representatives pointed out that they did not invariably control the voting of all shares of stock held by them.

3. ACTUARIAL SOUNDNESS

Banks or corporate trustees do not have the responsibility for the actuarial soundness of plans. Theirs is primarily a job of investment—to receive the contributions and to invest them for maximum yield and safety. However, one participant said: "I don't think any of us would take a pension plan if we did not have a responsible actuary servicing the plan. We don't want these things to blow up in our faces." The banks make no attempt to go behind the actuary's appraisal even though the banks might believe that some of the funds failed to meet the minimum funding requirements.

4. OPERATION OF PROGRAMS

Asked what mechanics were employed to enforce regularity of contributions from multiemployer-union-type plans, one of the bankers replied: "We don't enforce anything, because the board of trustees has the original liability for collecting the moneys and then it is up to them. Whatever they give us, it is our duty to invest."

In those cases where the banks actually issue the pension checks, they disclaim any responsibility for policing contributions, determining eligibility for pensions, and the like. At the direction of the corporation, the bank issues checks to those names on the lists supplied by the company.

5. COMPARISON WITH INSURED PROGRAMS

Questioned concerning the conservativeness of assumptions as between the insurance industry and independent actuaries, one participant replied:

> There is a difference. There is no question about that. An insurance company is selling something from which it guarantees to make payment at some time in the future, and not being in the business of taking any excessive risks or losing any money, it is making sure that its assumptions are conservative enough to overfund the plan so that it will not be called upon to make a pay-out from its own reserves.
>
> Under the trusteed plan, you don't have that situation. I mean, not to the same extent. A reputable actuary will use fairly conservative assumptions, but realistic ones, whereas the insurance company must, of necessity, use overconservative assumptions.

Another bank spokesman observed that—

> The insurance company uses two types of mortality tables, depending upon whether they are selling annuities or selling insurance, as you are well aware * * *

6. PENSION GROWTH

The bankers were asked for their views concerning the trend of pension growth. Their view was that there is a definite leveling off. Most of the large corporations have set up their plans and past service obligations are rapidly being funded. Most of the new business in these plans is now coming from much smaller concerns. Also, there is a point below which it would be uneconomical for a company to start a trusteed pension program. However, there is still a great prospect of expansion in multiemployer and industrywide plans.

7. INVESTMENT POLICY

The investment of pension funds in the stock of the employing companies, one representative stated, is discouraged. Banks attempt to prevent such self-investments and seek to insert clauses in the trust agreements prohibiting it.

It was pointed out that pension funds today usually carry from 25 to 35 percent of the assets of the fund in common stock. This has largely been a development of the past 5 or 6 years following a change in the New York law in 1950 which authorized investments of up to 35 percent of other trust funds in common stock. It was observed that, historically, trustees have been able to get a larger return on common stocks than on bonds and thus a corporation is able from common stock investments to finance a pension plan more cheaply or to increase benefits under such plans. It was pointed out that the average return on common stocks has recently been around 4.5 to 5 percent plus an annual enhancement in value of about 3 or 4 percent. There is no general need to liquidate a large percentage of holdings at any given time, and the market position at any point in time is not too important. There is a regular flow of earnings and payments. Peaks

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and valleys in market prices and securities are not of real importance as long as the trustee is satisfied with the underlying value of the investment. Regarding pension program costs, the bank spokesmen believed that they could do the same job at less cost than insurance companies.

8. DISCLOSURE

Regarding the adequacy or inadequacy of existing Federal and State control over these funds, it was the concensus that bank examiners are primarily interested in the liability that might be created for the bank if it were not operating the trust in accordance with the trust agreement, and not in the adequacy of the funding arrangements or the dissipation of the funds before they reach the bank's custody.

With respect to a Federal disclosure statute, one spokesman said—

> From the viewpoint of the trustee, I think we would be for some such disclosure, because it would place the plan in the area where it wouldn't be subject to the criticism that has developed in the past couple of years against some of these industrywide plans, and occasionally against some of the single-employer plans. As far as the corporate trustees are concerned, probably we would enjoy a little proper publicity.

However, it was pointed out that the plan belongs to the employer and it is not the function of the trustee bank to approve or object to disclosure legislation. Given a choice between legislation at the State level and as opposed to the Federal level, one banker said: "We would rather file one report than 48."

C. INDUSTRIAL REPRESENTATIVES PANEL DISCUSSION

Representatives of management specializing in industrial relations met with members of the subcommittee's staff at Chicago, Ill., on October 3, 1955, to present the industry view on problems in welfare and pension programs. Among those present were Mr. T. R. Iserman, attorney, New York City; Mr. Karlton W. Pierce of the Ford Motor Co.; Mr. G. G. Mitchell of the duPont de Nemours Co.; Mr. W. G. Caples of the Inland Steel Co.; Mr. Walter B. Siegel of the Soule Steel Co.; and Mr. M. H. Tucker, attorney, St. Louis, Mo. Opinions expressed and positions taken were the following:

1. DO WELFARE AND PENSION PLANS BENEFIT MANAGEMENT?

It was generally agreed that if welfare and pension plans are properly administered substantial benefits would flow equally to management and to labor; the worker feels greater security and peace of mind on the job so that he performs better than he would. There has been a growing recognition on the part of management of the importance of rounding out employee security through benefit programs. These plans, particularly pension plans, tend to tie the employee to a particular industry or company and to the particular union; therefore they enhance the power of the union, although they may at the same time contribute stability to the work force. There was also some opinion that the effect of these plans in inhibiting turnover was not

demonstrable. Rank and file workers are not as enthusiastic about the plans in lieu of wage increases as their leadership or management are.

2. ARE COSTS OF NEGOTIATED PLANS TOO HIGH?

The costs of negotiated plans, it was stated, are too high. In one plant, employees voted for a union plan with less benefits than that already in effect. Yet the cost of the new plan was substantially higher than the old program. In the automobile, steel, and electrical industries, benefits are high and almost all workers are covered. In other industries benefits are more moderate, and are sure to be increased with a corresponding increase in costs.

3. WELFARE AND PENSION PLANS AS SUBJECTS OF COLLECTIVE BARGAINING

It was argued that defects and flaws in these plans are born at the collective-bargaining table. Programs involve actuarial assumptions which can be taken on either a conservative or liberal basis, and long-term judgment is applied to figures which are as debatable as the assumptions are debatable. Bargaining about that type of variable can lead to trouble. For these reasons, employers felt strongly enough opposed to welfare plans as a subject of collective bargaining to fight it through the courts.

Some unions have insisted at the bargaining table on a uniform plan for an industry. However, a plan which works well for one company may not have equal application to all other companies. Bargaining for benefits as such is preferred to bargaining for a cents-per-hour contribution. It results in the lowest cost to both parties because the employer buys the protection on the most economical basis.

4. LIMITED JOINT ADMINISTRATION

One conferee stated that the plan of one local is supposedly jointly administered but the employers have no voice in the administration. They cannot successfully argue with the union trustees because the threat of picketing is there immediately. The union dictates not only who the union trustees and employer trustees will be, but they also dictate who shall be the third and impartial trustee. The Taft-Hartley Act provides no effective machinery to cope with the situation.

At a major automobile company the workers do not participate in the operation of the program although the union has pressed for it. Joint administration of these plans all the way down the line is a little more cumbersome than unilateral administration. It would be very difficult with the huge funds in the auto companies to try and bargain as to what investments ought to be made. The company has the exclusive right to select a qualified bank or trust company to act as trustee. The trustee is responsible for all investments because the trust agreement gives the trustee complete authority.

The union wants to get completely into the whole financial situation. Its leadership has from the very beginning been pressing toward that end. It would like to participate in the selection of the trustee, direction of investments, etc. These demands, it was said, are made so that the union may direct the use of the pension funds to-

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ward financing programs which the union feels are socially desirable, but which cannot compete for investment money in the open market. These projects include slum clearance projects, low-cost housing projects and medical centers. This effort to control investment on a basis other than investment merit can be accomplished only through the employer's financial subsidy of the projects involved, or a sacrifice of the underlying principles of security which is the keystone of a pension program. Moreover, such arrangements, in effect would open up broad new fields for collective bargaining—fields only remotely related, if at all, to the employer-employee relationship and poorly suited for solution through collective bargaining.

Joint administration of the financial side of these plans in some of the larger companies would means the same kind of "blackjack" situation which has come about in the smaller companies. The larger companies so far have been able to resist the attempts of the union leaders to obtain completely joint administration including financing. "If that ever happens you would get the same kind of union pressures which exist in the smaller companies. This is the big danger in joint administration, namely, when you get over into the financial area the union participants are unskilled in finance and business management and are subject to political pressures from within the union."

5. EFFECTIVENESS OF THE TAFT-HARTLEY ACT

It was generally agreed that the Taft-Hartley Act has had little application to welfare and pension plans in large companies. Insofar as the small joint multiple-employer plans are concerned, the Taft-Hartley provisions were stated to be wholly inadequate.

The average employer does not like the liability that has been imposed upon him by the Taft-Hartley Act which requires him to be a trustee or to appoint one. The union usually dominates the board of trustees in one way or another. Some employers have been advised that if the union were free of the restrictions of the Taft-Hartley Act, employers would then have nothing whatever to do with these plans except to make the contributions. One representative of the industry favored joint administration with a neutral trustee appointed by a Federal judge and cloaked with most of the authority. A second conferee suggested leaving the Taft-Hartley Act as it is except to put some teeth in it as in the Gwinn bill.

6. LEGISLATION GENERALLY

There was general agreement that legislation should be on the State level except where the States have not so legislated. It was stated that no State now has adequate legislation in this field. Disclosure was favored but only on a limited basis. It was suggested that some Government agency have the power to audit the plans thoroughly but public disclosure be made only on those funds where irregularities existed. Full disclosure would be injurious to many employers because they consider some of these matters as competitive secrets. There was opposition to publicly disclosing financial operations, benefits paid, and administrative costs. If all investment portfolios were disclosed publicly it would affect the market. Administrative costs are somewhat of a competitive secret. It would require some costly

cost-accounting system to come up with true administrative costs for the purpose of public disclosure. Total claims paid would be a cost item which should not be disclosed publicly.

There was substantial agreement that disclosure should apply only to jointly administered plans because there is no incentive for an employer who runs a pension plan or insurance program and has responsibility for costs to waste his money. Evils tend to develop when one person acquires power over the spending of someone else's money. Legislation is not necessary to keep people from defrauding themselves. Disclosure is not necessary for unilaterally administered plans because the decisions under the Taft-Hartley Act requires employers to disclose to the unions any information they may have which relates to their bargaining demands and this would include investment information and costs.

However, one industry representative disagreed with this and favored disclosure of every type of plan, unilaterally administered or otherwise. He recommended supervision by a Government agency not only of the plan but of investments and complete disclosure more frequently than once a year, because great damage can be done within the span of a year.

The primary purpose of legislation the conferees agreed should be to protect the beneficiaries of these plans.

The agency selected to administer these controls if instituted on the Federal level should not be the Department of Labor, or the Department of Commerce, because by their very nature they favor certain segments of the economy. The regulation should go to some agency which by its nature does not have a definite labor-management viewpoint, perhaps Internal Revenue.

D. LABOR REPRESENTATIVES PANEL DISCUSSION

On October 25, 1955, the subcommittee staff met with representatives of certain labor unions. The labor representatives were Mr. Joseph Swire of the International Union of Electrical Workers, CIO; Mr. John Tomayko and Mr. Elliot Bredhoff of the United Steelworkers and Mr. Murray Latimer, their consultant; Mr. Wilbur Daniels and Mr. Adolph Held of the International Ladies Garment Workers Unions; Mr. William Dodd and Mr. Charles Donahue of the United Association of Plumbers and Steamfitters; Mr. Leonard Lesser of the United Automobile Workers, CIO; Mr. Jack Barbash of the CIO; Mr. Lane Kirkland of the A. F. of L.; Mr. Glen Wall of the International Brotherhood of Electrical Workers, AFL; Mr. Martin Segal, consultant to the Bakery and Confectionery Workers Union; and Mr. Vernon E. Jirikowic of the International Association of Machinists.

1. BARGAINING ON A BENEFITS OR CENTS PER HOUR BASIS

Some unions preferred bargaining for welfare plans on a benefits basis, but other unions, with funds to which multiple employers contribute, found bargaining for benefits impossible of application. One union representative made the point that bargaining for benefits results in more uniform benefits, because the same amount of money will not buy the same hospitalization or medical benefits in all areas.

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The point was also made that bargaining for benefits results in a conclusion of the matter at the bargaining table, whereas whenever negotiations are for cents per hour, there ensue weeks of discussion as to who is to spend the money for benefits, with the company holding an advantage since the contract has been signed and the pressure is off. A statement was made that bargaining for benefits is one way to progress from contributory to noncontributory plans. One union whose plans are practically all contributory and employer-controlled, preferred bargaining on a benefits basis but would like to tie to this a requirement that the carrier be selected by competitive bidding.

Certain union representatives asserted that they have found cases where the employer's contribution to a plan was offset by the dividends he received and he was, in effect, paying no part of the premium cost. In some cases, employers were actually making a profit on the program. One union reported that in one case where the employer insisted on retaining a certain carrier because he was receiving substantial dividends, the union succeeded in having the insurance placed with another carrier which provided the same benefits at 25 percent less premium. One union representative said that a large corporation was extremely interested in retaining a particular insurance company as the carrier for its group insurance, because it was investing heavy sums in an expansion project which the employer company was undertaking.

While the initial approach might vary, in the final analysis, any informed employer or union is aware of the specific cost implications of whatever they are bargaining for. No employer bargains on benefits in the abstract. He enters into negotiations with some room to compromise but is armed with cost estimates. Bargaining on a basis of benefits where the union also has the means of determining the value of the benefits in terms of costs would place both parties on an even footing.

Where small local unions are involved, bargaining on a benefits basis serves to confuse both parties and extends the negotiations to technical aspects with which the union is not familiar. Many small employers could not individually provide the benefits which may have been bargained because they could not buy the kind of insurance necessary. If they are to band together in an association to buy these benefits, benefits would have to be translated into terms of cents per hour or dollars per month. The suggestion by the United States Chamber of Commerce and some employers and unions to make bargaining for benefits the rule has not been thought through insofar as small unions are concerned.

A union spokesman thought that no company really wants to barbain on benefits; it wants to sign a contract on benefits, but really to bargain on costs; in the negotiations, it goes in on benefits but winds up on costs. It was alleged that this action gives the company a substantial strategic advantage because the union usually cannot come to the bargaining table equipped with actuaries and cost accountants, but that the company can. The contract is signed on benefits and then the company proceeds to provide the benefits at lower costs than were assumed in the negotiations. If the negotiations were conducted on a cost basis and the contract signed on that basis, then the employer would be committed to the costs upon which he negotiated.

2. ADVANTAGES OF A NATIONAL WELFARE FUND

One representative reported the results of a study to determine how much of the premium dollar is retained by an insurance company on insurance covering groups of various sizes. It found that insurance retention was as follows:

	Percent
100 employees	30
500 employees	12
10,000 employees	5½
50,000 employees	4½

The conclusion drawn from this study was that the same amount of employers' contributions paid into a single fund covering the employees of many employers would provide greater benefits than if each employer purchased insurance separately. The union and management decided, therefore, to establish a national welfare plan. This would offer the following additional advantages: (1) Bargaining on cents per hour to be contributed to the fund would simplify negotiations because technical, actuarial, and administrative problems connected with the program would be largely obviated; (2) there would be a lower cost of administration in a consolidated plan; and (3) bringing industry and labor together in the administration of a national welfare program would promote more harmonious labor-management relations. As of May 31, 1955, the end of the second year, there were about 140,000 employees and dependents covered, with over 100 local unions and 840 employers participating. Out of a premium of about $2.5 million, the insurance company kept 3.67 percent, of which 1.5 percent was for premium taxes. Commissions were sixteen one-hundredths of 1 percent. The administrative expenses of the fund amount to about 3.5 percent of contributions.

3. WAGE CONCEPT OF WELFARE AND PENSION COSTS

There was general agreement that whether or not the program is jointly or unilaterally administered, whether negotiations are in terms of benefits, cents per hour, or percentage of payroll, the cost of providing the benefits is basically something that belongs to the worker and the worker is entitled to the most benefits for the money involved. The employer has agreed at the bargaining table that contributions to provide certain benefits are due to the worker in return for his endeavors.

4. JOINT ADMINISTRATION OF PLANS

Joint administration has many advantages; it helps in the prompt collection of contributions; provides the employers with a real appreciation of the problems of the workers; enlists the business experience and acumen of the employers for effective fund administration; and enables them to appreciate the need for additional contributions, should such become necessary.

The Taft-Hartley Act experience proves one essential point—there is no magic in any organizational scheme for protecting a fund from depredation. The mere fact that management, as well as labor, trustees are prescribed does not mean that the management trustees, themselves, will not become parties to chicanery and maladministration of funds.

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5. NEED FOR DISCLOSURE LEGISLATION

There was complete agreement among the labor representatives that if disclosure is required, it should extend to all types of plans, including employer unilaterally administered plans. Many of the unilateral plans are contributory and present a strong case for disclosure, in view of the fact that employers have been found to have taken advantage of the secrecy to reduce their own contributions or, in some cases, to even make a profit on their group insurance. Employers should be compelled, either by collective bargaining or legislation, to disclose to the beneficiaries what is done with the moneys contributed to welfare and pension plans. In many instances, when unions have sought information from the employer, they have been referred to the insurance companies. At times, the insurance companies have refused to supply information unless they were paid specified amounts for preparing reports.

The labor representatives said that disclosure is objected to by management because it will supply bargaining data to unions, but they thought this was a good argument for disclosure. The National Labor Relations Board and the Supreme Court have held that unions are entitled to data on such subjects as merit increases, individual seniority standings, and individual wage rates. The same reasoning should apply to data on welfare and pension plans; these data are required for intelligent collective bargaining.

One purpose of disclosure would be to assure that beneficiaries get the most benefit possible out of a program. They should be given all the basic information whether or not is is required by the bargaining agreement. Although the National Labor Relations Board has held that an employer must give information on the costs of an insurance plan to the union when such data are necessary for bargaining purposes, resort to the NLRB is an inadequate remedy. By the time the Board has directed the employer to provide the information, the need for it has passed.

The plans under which employee beneficiaries get the most information most readily, are the jointly administered ones, both as a matter of practice and under the existing requirements of the Taft-Hartley Act. Those opposing disclosure on unilaterally administered plans are, in essence, saying that those plans which do not now disclose should be exempt from disclosure legislation.

6. WHAT SHOULD BE DISCLOSED TO WHOM

The spokesmen for labor insisted that a full annual report on welfare-plan operations should be furnished to all individual employees and members. The report should include a detailed statement of receipts and expenses, all salaries and fees paid by the fund, to whom and in what amounts such sums were paid, and for what services or purpose; the breakdown of insurance premium payments to commercial carriers involved, showing the amount of retentions, claims paid, dividends, commissions, and service charges, and to whom the carrier paid such commissions and charges; a financial statement on the part of a service agency, if an agency other than a commercial insurance carrier is employed; and a detailed account of the manner in which any reserves held by the fund are invested. Such complete and open disclosure to all parties with a legitimate interest would

throw light on any undesirable practices and act as a deterrent to same. Disclosure requirements need not include an actuarial evaluation of a pension fund, because such evaluation would be meaningless and understood by very few persons, and because the assumptions and standards used would vary so greatly.

Disclosure legislation should be independent of the Taft-Hartley Act because that act is concerned with collective bargaining. The law requiring disclosure of the essential facts of the operation and administration of welfare and pension plans should be designed as an instrument to protect the interests of the beneficiaries against possible abuse, regardless of whether or not there is any collective-bargaining aspect whatever.

The general view was that disclosure should be made to the Department of Labor or some other Federal agency and that the information be made readily available to the public and to the parties concerned.

7. STATE REGULATION CONSIDERED NOT DESIRABLE

One labor representative said that some revealing facts have emerged from hearings held by the subcommittee. One of these is the total paralysis of existing State insurance agencies in the discharge of their responsibilities. For example, when one State issues an insurance agent license to a man who is a business associate of known racketeers and criminals; when another State issues a license to the same man without anything more than a pro forma sort of procedure; when a State insurance commission receives full information that an exorbitant commission rate was charged and received by this individual, and raises no questions about it until much later, or at least not until looting of funds had occurred, delaying until disclosure resulted in such pressure that the insurance commission was compelled to take action—this demonstrates that the State agencies are simply not performing functions that should be performed.

The issuance of a license to an insurance agent, for example, now provides no protection to the person who avails himself of the service of the agent. It should be made to mean a little something. All of the facts of the picture indicate that State regulation of insurance practices, is, in effect, regulation by the insurance industry, labor spokesmen insisted.

The State laws on trusts are adequate to control breaches of trust, but disclosure might help to reveal breaches of trust and to make those laws more effective because these breaches generally are not discovered until a fund has been depleted. Disclosure should be Federal in character. The main area of State legislation ought to be concerned with the regulation of insurance practices and the enforcement of the fiduciary obligations of trustees.

8. DELINQUENT EMPLOYER CONTRIBUTIONS

Several labor representatives said that a major problem in the multiemployer plans is delinquency of some employers in making contributions. Failure to collect contributions means that the fund has additional administrative expense; union officials are diverted from other duties by having to enforce the agreement; the cost of the benefit program is not being shared equally by all employers who are bidding on

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jobs, but is falling on the shoulders of the responsible employer who is meeting his obligations to the fund. The responsible employer who makes his payments on time is, in effect, carrying the employees of the employers who are not paying on time. This widens the competitive gap between them as far as cost is concerned. California has enacted a provision which makes it a misdemeanor for an employer not to make his contributions to a fund when due.

9. INVESTMENTS

One labor union representative said that his union is interested in getting the reserve funds of their pension plans invested in projects which would incidentally benefit their people while the money is earning interest or dividends. They propose to establish clinics or hospitals primarily directed to serving the aged. They reason that the workers should receive some benefit from the funds while they are actively at work. It had been suggested that loans be made to union members to build houses.

Another union representative voiced similar ideas. His union is not thinking of having a voice in selecting the exact issues that should be brought, but it would like to influence the broad investment policy and put money into socially desirable purposes. For example, in the field of housing, there are insured Government bonds on low-cost housing which would constitute desirable investments.

One union spokesman pointed out that his union has built a $20 million housing project partly for its members and partly for the public. Most of the financing was done through their health, welfare, and pension funds. Each fund's participation was limited to 10 percent of its resources. The decision was made jointly by the employer and employee trustees. They expect to obtain more earnings from this investment than they did in the past from Government securities.

In many cases, the unions are kept in the dark as to the investments of management-controlled pension funds. The labor spokesmen generally agreed that unions have a right to full and detailed information of this nature.

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IX. QUESTIONNAIRE STUDY OF GROUP INSURANCE POLICIES WHERE UNIONS HAD A VOICE IN SELECTION OF CARRIER

A. SCOPE OF THE STUDY

In the past 10 years, much of the group insurance issued by commercial insurance carriers has been the result of agreements between employers and trade unions. A significant portion of this business has been so transacted that the unions, in various ways, have had a voice in the selection of the insurance carriers.

In order to better understand the operation and practices of group insurance and to obtain a basis for investigations of abuses and fraudulent practices in the administration of welfare plans, the subcommittee sent questionnaires in August 1954 to life and casualty insurance companies writing group insurance. In all, 92 companies were contacted. Completed questionnaires were received from 79 companies. These companies wrote 95 percent of all the group business in 1953. The subcommittee requested them to fill out a separate questionnaire for each group policy issued, as a result of collective bargaining, to welfare funds administered jointly by management and trade unions, union welfare funds, and to other entities where the union appeared to have had a voice in the selection of the carrier.

The questionnaires requested certain identifying information with respect to the insurance carrier, the policyholder, the union, and the broker, agent and others to whom commissions and fees were paid; the types of benefits; average annual premium per covered employee; and related information. In addition, the questionnaire asked the following information for each of the policy years 1948–53, during which the policy was in force: amount of gross and billed premiums, amount of commission, amount of fees and other allowances, amount of incurred claims, amount of dividends or experience rating refunds, and amount of retentions.

No questionnaire was sent to such organizations as the various Blue Cross and Blue Shield associations as not coming under the subcommittee's definition of "commercial insurance carrier."

Many policies issued or renewed in 1953 completed their policy year in the latter part of 1954. For this reason the data for 1953 are incomplete in most cases. The analysis which follows, therefore, unless otherwise indicated, is limited to policies issued or renewed in 1952.

B. GROUP POLICIES ISSUED, 1948–1953

1. NUMBER OF POLICIES, 1948–53

Almost 2,500 group insurance policies were reported by 79 insurance carriers as issued or renewed from 1948 to 1953, inclusive. By the end of this period, however, 17 percent of them had been canceled so that only 2,073 were still in force at the end of 1953 (table 13).

Nearly all of the policies were originally issued during the years 1946–53. Only 55 of them were issued between 1926 and 1945, inclusive. In 1950, 456 policies were issued; in 1951, 425; 536 were written in 1952 and 584 in 1953. In many instances 2 or more policies were issued to cover 1 group and it is estimated that the 2,497 policies represented approximately 2,150 groups of employees.

TABLE 13.—*Number of policies issued, renewed, and canceled, 1948–53, and in force at end of 1953, by year (policies issued by 79 insurance companies)*

Year issued	Total issued	Number canceled							Number in force end of 1953
		Total	1948	1949	1950	1951	1952	1953	
All years	2,497	424	1	20	50	88	119	146	2,073
1926	1								1
1927	1								1
1928	2								2
1929	1								1
1930	1								1
1932	1								1
1935	1								1
1939	1								1
1942	2	1			1				1
1943	5	3			1	1	1		2
1944	12	4			1	2	1		8
1945	27	5			1	1	3		22
1946	43	18	1	1	7	6	3		25
1947	63	21		8	2	7	2	2	42
1948	120	45		11	10	11	9	4	75
1949	215	64			21	17	16	10	151
1950	456	111			6	39	35	31	345
1951	425	89				4	41	44	336
1952	536	57					8	49	479
1953	584	6						6	578

(A) NUMBER OF CARRIERS USED

The number of policies issued during the period by any 1 carrier ranged from 1 to 245.[1] While the business was distributed among 79 carriers, the reports indicate concentration within a few carriers. While there were 29 companies with 25 or more policies each, about 38 percent of the policies were issued by 5 companies.[2]

(B) UNIONS INVOLVED

Of the 2,497 policies reported, 2,321 involved identified trade unions, 97 involved unions whose identities were not known, and 79 unions that represented employees of only 1 employer.

In most cases, members of a union were covered by only a few policies. Of the 125 unions representing employees of more than 1 employer, 76 had an interest in less than 10 policies each, and 95 in less than 25 policies each. There were only 10 unions with an interest in 50 or more policies each. One union, the International Brotherhood of Teamsters, AFL, had an interest in 347 of the policies reported. Most of the policies (69 percent) involved unions affiliated with the American Federation of Labor; 16.5 percent involved affiliates of the then CIO; 7.3 percent those of independent unions, unidentified unions, or unions representing 1 employer only.

[1] Occidental Life Insurance Co. of California.
[2] See appendix I, p. 334.

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(C) TYPES OF POLICYHOLDERS

The carriers reported five types of policyholders, namely, trust funds; trade unions; employers known to them as having arrangements with the unions with which they bargained, giving them a voice in the selection of insurance carriers; employers' associations known to the carriers to have similar arrangements; and employers and unions who were joint policyholders.

As would be expected, the majority of the policies, 57.1 percent, were issued to jointly managed funds. Over 25 percent were issued to unions. Almost 15 percent were issued to employers. The remainder were issued jointly to employers and unions, or to employers' associations.

(D) POLICIES IN FORCE, END OF 1953

It has already been pointed out that of the 2,497 policies issued or renewed during the period 1948–53, only 2,073 remained in force at the end of the period. The reports indicate a relatively high degree of policy cancellation by certain individual insurance carriers—either on their own initiative or at the request of the policyholders.

Policy cancellations represent: (1) policies dropped by certain carriers because of the excessive claims incurred; (2) policies dropped by the policyholders as a result of a change in the character of its insurance program or of termination of the program; (3) consolidation of a number of policies; (4) policies rewritten by the same carrier; and (5) changes in insurance carriers. Among the 26 carriers that issued 25 or more policies each, there were 11 companies with more than 20 percent of their policies canceled during the period. Two of them had more than 50 percent canceled.

An examination of the policies reveals that those in which certain unions were involved experienced a greater rate of cancellation than those in which other unions were involved. However, of the 125 unions representing employees of more than 1 employer, there were only 12 unions with an interest in 25 or more policies that experienced a cancellation rate of 20 percent or more. These included 1 union [3] with an interest in 126 policies, 27 percent of which were canceled, and 1 [4] with an interest in 101 policies, 30.7 percent of which were canceled.[5]

C. TRANSACTIONS OF INSURANCE CARRIERS: POLICIES IN FORCE, 1952

In group insurance the transactions of insurance carriers involved the following factors: billed premiums; claims incurred; dividends; and insurance company retentions. There were 1,596 policies issued or renewed in 1952. In some cases, two or more policies covered the same group. Examination of the questionnaires submitted indicates that the 1,596 policies covered approximately 1,500 groups. In the aggregate the policies involved over $127,476,000 in billed premiums.[6]

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[3] Hotel, Restaurant Employees, and Bartenders International Union, AFL.
[4] United Automobile, Aircraft, and Agricultural Implement Workers Union of America, CIO.
[5] See appendix II, p. 335.
[6] See appendix III, p. 337.

1. INSURANCE CARRIERS

In terms of number of policies, the group insurance was widely distributed among the carriers. Of the 70 companies with policies in force in 1952, 12 had as few as 1 policy each; 40 had fewer than 10 each. At the other extreme, however, 10 companies [7] issued over 50 percent of the policies.

Just as the policies were concentrated among a small number of insurance carriers, so was the volume of business in terms of billed premiums. One-half of the $127,476,000 of the billed premiums was written by only 7 [8] of the 70 insurance carriers.

2. TYPES OF POLICYHOLDERS

Policies issued to the trust funds accounted for 76.8 percent of the billed premiums; those issued to unions, 11.5 percent; and those to employers, 10 percent. This is summarized below:

Type of policyholders	Policies		Billed premium		
	Number	Percent	Amount (thousands)	Percent	Average
Total	1,596	100.0	$127,476	100.0	$79,872
Trust funds	911	57.1	97,918	76.8	104,484
Unions	416	26.1	14,591	11.5	35,075
Employers	231	14.5	12,929	10.1	55,970
Employer-union	23	1.4	1,403	1.1	61,000
Employers' associations	15	.9	635	.5	42,333

3. BENEFITS PROVIDED

(A) TYPES OF BENEFITS

The policies reported by the insurance carriers provided one or more of the following types of group insurance: Life, accidental death and dismemberment; accident and sickness; hospitalization, surgical, and medical expense.

Surgical expense insurance was the benefit most frequently provided and medical expense least frequently, as shown below:

Policies issued or renewed in 1952

Type of insurance	Number	Percent
Total	1,596	
Life	1,078	67.5
Accidental death and dismemberment	949	59.5
Accident and sickness	1,085	68.0
Hospital expense	1,064	66.7
Surgical expense	1,097	68.7
Medical expense	633	39.7
Others [1]	198	12.4
Unknown	68	4.3

[1] Mostly polio and similar dread disease insurance.

[7] Occidental Life Insurance Co. of California, 175; Union Labor Life Insurance Co., 164; Continental Casualty Co., 135; Aetna Life Insurance Co., 84; Connecticut General Life Insurance Co., 78; Prudential Insurance Co. of America, 64; Continental Assurance Co., 63; Pacific Mutual Life Insurance Co., 58; John Hancock Mutual Life Insurance Co., 52; and Travelers Insurance Co., 50.

[8] Occidental Life Insurance Co. of California, $21,300; Prudential Insurance Co., $9,150,000; Amalgamated Life Insurance Co., $8,500,000; John Hancock Mutual Life Insurance Co., $8,410,000; Union Labor Life Insurance Co., $7,630,000; Aetna Life Insurance Co., $6,700,000; and Equitable Life Assurance Society, $6,000,000.

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As can be seen, most of the other major types of insurance were provided with more or less frequency. Almost 73 percent of the hospital expense insurance policies, over 68 percent of the surgical expense insurance policies, and over 62 percent of the medical expense insurance policies covered the employees' dependents as well. A few of the life insurance policies (9) covered the employees' dependents also.

(B) COMBINATION OF BENEFITS

In general it can be said that in terms of types of benefits provided, most plans were quite complete. The combination of benefits most frequently provided was life insurance; accidental death and dismemberment; accident and sickness; hospitalization, surgical, and medical expense insurance—almost 19 percent of the plans. The combination next most frequently provided—in almost 14 percent of the plans—included all of the above types except medical expense insurance.

Over 40 percent of the plans provided at least 5 or 6 major types of benefits. Over 65 percent provided at least 4 of the different types. Unfortunately, the form in which the data were requested from the insurance companies did not call for data on the amount of the different types of insurance provided. However, available data indicate that benefits in most plans were fairly modest. In almost 57 percent of the 749 cases for which data were available, the annual premium per employee was under $50, as shown by table 14. Actually, however, the annual premium per employee was somewhat higher because the policies for which premium data were available provided less complete benefit programs for which such data were not available.

TABLE 14.—*Distribution of 749 policies issued or renewed in 1952, by amount of annual premium per employee*

Annual premium per employee	Policies	
	Number	Percent
Total	749	100.0
Under $25	192	25.6
$25 and under $50	233	31.2
$50 and under $75	143	19.1
$75 and under $100	67	8.9
$100 and under $125	87	11.6
$125 and under $150	20	2.7
$150 and under $175	6	.8
$175 and under $200		
$200 and over	1	.1

4. COVERAGE

The questionnaires sent to the insurance carriers, it will be recalled, asked for information on the average annual premium per employee covered. This question was intended to throw light on the number of employees covered by the plans. Unfortunately, in a high proportion of the questionnaires, the information was either poorly furnished or not furnished at all. For the policies issued or renewed in 1952, only 749 out of 1,596 questionnaires contained useful data on this subject.

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(A) NUMBER OF EMPLOYEES COVERED

In spite of the inadequacies of the data, by making a careful examination of the characteristics of the 749 policies, as compared with those of the other 847, it is possible to arrive at approximately the number of employees covered by the 1,596 policies. On this basis, it is estimated that the policies covered approximately 2 million employees.

Most of the policies covered a small number of employees. Almost one-fourth of the 749 policies for which such data were available covered less than 100 employees; over two-thirds covered less than 500, as shown by table 15.

TABLE 15.—*Distribution of 749 policies issued or renewed in 1952, by number of employees covered*

Number of employees	Policies	
	Number	Percent
Total	749	100.0
Under 100	176	23.5
100 and under 500	323	43.1
500 and under 1,000	115	15.4
1,000 and under 5,000	107	14.3
5,000 and under 10,000	16	2.1
10,000 and under 25,000	8	1.1
25,000 and under 50,000	3	.4
50,000 and under 75,000	1	.1

(B) TYPES OF COVERAGE

Approximately 20 percent of the employees are estimated to have been covered by the following combination of insurance benefits: life; accidental death and dismemberment; accident and sickness; and hospital, surgical, and medical expense. Another 15 percent of the employees are estimated to have been covered by all of the above benefits except medical expense insurance. The coverage by type of benefit is estimated as follows:

Type of insurance:	*Number of employees*
Life	1,400,000
Accidental death and dismemberment	950,000
Accident and sickness	1,300,000
Hospital expense	1,200,000
Surgical expense	1,250,000
Medical expense	650,000

5. SIZE OF POLICY

Whether measured in terms of numbers of employees covered or amounts of billed premiums, most of the policies were relatively small.

The 1,596 policies issued or renewed in 1952 averaged less than $80,000 in annual billed premium. One policy had an annual billed premium of $2,608,953.[9] For individual carriers the average billed premium ran from $525[10] to over $1,200,000.[11] Almost 35 percent

[9] Issued by the John Hancock Mutual Life Insurance Co. to the International Woodworkers of America, CIO.
[10] Dominion Life Assurance Co.
[11] Amalgamated Life Insurance Co.

of the 1,596 policies involved billed premiums of less than $10,000 annually, and 61 percent of less than $30,000. At the other end, over 16 percent had billed premiums of $100,000 or more.

Policies issued to trustees were generally larger than those issued to the other types of policyholders. While only 22 percent of the policies issued to trust funds had billed premiums of less than $10,000 annually, as many as 54 percent of those issued to unions and 47 percent of those issued to employers were that small. On the other hand, over 22 percent of those issued to trustees had billed premiums of $100,000 or more annually, while less than 7 percent of those issued to unions and 10 percent of those issued to employers were as large, as shown by table 16.

TABLE 16.—*Percent distribution of 1,596 policies issued or renewed in 1952 by size of policy and type of policyholder*[1] *(70 carriers)*

Size of policy	Total	Trusteed fund	Union	Employer
Total number of policies	[2] 1,596	911	416	231
Total percent	100.0	100.0	100.0	100.0
Under $5,000	22.4	11.6	39.0	32.3
$5,000 and less than $10,000	12.5	10.6	15.1	13.9
$10,000 and less than $30,000	26.6	29.6	23.1	23.4
$30,000 and less than $50,000	10.3	10.6	8.7	11.7
$50,000 and less than $100,000	12.0	15.5	7.2	7.8
$100,000 and less than $250,000	10.3	13.1	6.0	6.9
$250,000 and less than $500,000	2.9	4.7	.2	.9
$500,000 and less than $1 million	1.9	2.9	.2	1.3
$1 million and over	1.1	1.4	.5	1.3

[1] The distributions of 23 policies issued jointly to employers and unions, and of 15 policies issued to employers' associations are not shown because of their small numbers.
[2] Includes the 38 policies cited in footnote 1 above.

6. FINANCIAL OPERATION

The transactions under study, it has been pointed out, involved $127,476,000 in billed premiums. Almost 90 percent of this amount was paid out in claims to the beneficiaries and in dividends or experience rating refunds to policyholders.

(A) TRANSACTIONS SUMMARIZED

The experience of the carriers with these group insurance policies shows that claims incurred amounted to approximately $101,325,000. Thus, in the aggregate, 79.5 percent of the billed premiums received by the carriers were absorbed by the payment of claims. The carriers returned over $10,228,000 to the policyholders in dividends or experience rating refunds, or 8 percent of the billed premiums. The companies therefore retained over $15,992,000, or 12.5 percent. Out of this amount, they paid over $4,326,000 as commissions, or 3.4 percent of the billed premiums, to brokers and agents, and over $1,158,000 in service fees. The companies then had almost $10,438,000 left for other expenses, such as administrative costs, taxes, reserves, and (in the case of stock companies) profits, as shown by table 17.

TABLE 17.—*Experience of 70 carriers with 1,596 policies issued or renewed in 1952*

[Dollars in thousands]

Item	Amount	Percent
Billed premium received	$127,475	100.0
Less:		
Incurred claims	101,325	79.5
Dividends, experience rating refunds	10,228	8.0
Retentions by carriers	15,902	12.5
Less:		
Commissions	4,326	3.4
Service fees	1,158	.9
Remainder for carriers	10,438	8.2

(B) INCURRED CLAIMS

Incurred claims represent amounts actually paid to beneficiaries and such reserves as those for unreported and pending claims. Claims experience is generally expressed as a "claims ratio," i. e., the ratio of the amount of incurred claims to the amount of billed premium.

In the aggregate, the 70 companies incurred almost $101,325,000 in claims during the calendar year 1952. This was an average of approximately $63,490. Two companies with one small policy each did not incur any claims. On the other hand, the company with 175 policies [12] incurred almost $17,500,000 in claims, or an average of over $100,000 per policy. Its policies, incidentally, averaged well over $125,000 in billed premiums.

Incurred claims, in the aggregate, absorbed almost 80 percent of the billed premiums. The experience of the different companies, however, varied greatly from a claims ratio of 11.1 precent for 1 company with 5 policies having billed premiums of less than $18,000 [13] to 169.2 percent for a company with 1 policy having a billed premium of $4,138.[14] Considering only the 43 companies with a substantial volume of business, i. e., the companies with 10 or more policies or with billed premiums of $100,000 or more, only 1 had a claims ratio of less than 60 percent (see table 18). For these companies, the claims experience was as follows:

Claims ratio:	*Percent of companies*
50 to 59.9 percent	2.3
60 to 69.9 percent	18.6
70 to 79.9 percent	39.5
80 to 89.9 percent	34.9
90 to 99.9 percent	4.7

[12] Occidental.
[13] Zurich Life Insurance Co.
[14] Canada Life.

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TABLE 18.—*Transactions of carriers with 10 or more policies, or with billed premiums of $100,000 or more, by insurance carriers: Policies issued or renewed in 1952 by 70 carriers*

Code	Carrier name	Number of policies	Billed premiums		Claims incurred	Dividends	Percent of billed premiums—Retentions			Remainder
			Amount	Average			Total	Commissions	Fees	
	All carriers	1,596	$127,475,757	$79,872	79.5	8.0	12.5	3.4	0.9	8.2
	Subtotal	1,518	126,621,056	83,413	79.5	8.0	12.5	3.4	.9	8.2
	Carriers with 10 or more policies or billed premiums of $100,000 or more:									
88	Washington National Insurance Co	37	421,970	11,404	60.5	5.4	34.1	8.7	2.4	23.0
85	United Benefit Life Insurance Co	15	238,993	15,933	87.9		12.1	10.4	.3	1.4
78	State Mutual Life Insurance Co	35	621,216	17,749	74.4	4.5	21.1	9.4	2.1	9.6
22	Continental Casualty Co	135	2,982,024	22,089	63.2	16.5	20.3	4.5	1.1	14.7
28	Farm Bureau Mutual Automobile Insurance Co	9	235,340	26,149	69.4	13.1	17.5	6.1		11.4
25	Eastern Casualty Co	24	658,197	27,425	52.7	2.2	45.1	13.6	5.2	26.3
38	Home Life Insurance Co	7	207,118	29,588	87.6	3.3	9.1	1.9		7.2
34	Great West Life Insurance Co	10	324,722	32,472	81.5	2.9	15.6	6.7	2.2	6.7
43	Liberty Mutual Insurance Co	16	526,462	32,904	79.3	8.1	12.6			12.6
31	General Accident Fire & Life Assurance Corp., Ltd	3	117,498	39,166	79.5	8.4	12.1	3.4		8.7
12	Benefit Association of Railroad Employees	23	964,608	41,939	78.0	6.6	15.4	4.6	1.9	8.9
45	Lumbermen's Mutual Casualty Co	18	763,917	42,440	95.7	0.6	3.7	2.7		1.0
11	Bankers Life Co	32	1,437,447	44,920	82.5	4.8	12.7	2.3	1.6	8.8
18	Columbian National Life Insurance Co	12	544,117	45,343	69.1	6.0	24.9	4.0	1.9	19.0
87	United States Life Insurance Co	48	2,239,666	46,333	69.4	11.3	19.3	4.1	.8	14.4
83	Union Labor Life Insurance Co	164	7,633,440	46,545	78.4	7.3	14.3	4.4	1.1	8.8
04	American Casualty Company of Reading	25	1,214,153	48,566	87.1	2.5	10.5	5.2	.4	4.9
47	Massachusetts Mutual Life Insurance Co	18	1,114,920	61,940	91.4	4.3	4.2	5.8		1.6
20	Connecticut General Life Insurance Co	78	5,132,621	65,803	77.1	10.5	12.4	4.3	(1)	1.6
21	Continental Assurance Co	63	4,151,319	65,894	76.7	7.7	15.6	3.9	2.5	9.2
44	Lincoln National Life Insurance Co	28	2,033,062	72,609	81.2	6.7	12.1	3.8	.1	8.2
80	Travelers Insurance Co	50	3,793,343	75,869	70.0	15.5	14.5	3.1	.2	11.2
1	Aetna Life Insurance Co	84	6,715,981	79,952	76.3	13.4	10.3	2.5		7.8
65	Paul Revere Life Insurance Co	3	247,091	82,364	73.7	6.2	20.1	2.8	1.7	15.6
63	Pacific Mutual Life Insurance Co	58	4,792,522	82,630	87.0	5.0	8.0	5.3	1.6	1.1
32	General American Life Insurance Co	9	805,867	89,541	70.9	14.5	14.6	3.3		11.3
09	Associated Indemnity Corp	4	360,283	90,070	65.2	15.1	19.7	1.3		18.4
69	Provident Life and Accident Insurance Co	46	4,687,840	101,910	89.2	3.1	7.7	1.5	.1	6.1
56	New York Life Insurance Co	24	2,506,528	104,438	78.2	11.5	10.3	3.4		6.9
8	American Progressive Health Insurance Company of New York	1	112,209	112,209	84.6	7.0	8.4	15.0		−6.6
89	West Coast Life Insurance Co	5	578,407	115,681	60.6	24.5	14.9	1.0	1.3	12.6
30	Founders' Insurance Co	2	241,960	120,980	74.6	8.6	16.8	4.0		12.8
61	Occidental Life Insurance Company of California	175	21,294,189	125,281	82.2	4.3	13.5	3.1	1.6	8.8

[1] Negligible.

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TABLE 18.—*Transactions of carriers with 10 or more policies, or with billed premiums of $100,000 or more, by insurance carriers: Policies issued or renewed in 1952 by 70 carriers*—Continued

Code	Carrier name	Number of policies	Billed premiums		Claims incurred	Dividends	Percent of billed premiums—Retentions			Remainder
			Amount	Average			Total	Commissions	Fees	
27	Equitable Life Assurance Society of the United States	47	5,999,121	127,641	83.3	6.1	10.6	2.3	----------	8.3
70	Prudential Insurance Company of America	64	9,150,338	142,974	78.4	11.8	9.8	2.1	.2	7.5
75	Security Mutual Life Insurance Co	29	4,181,148	144,178	63.4	8.8	27.8	10.4	2.5	14.9
51	Mutual Benefit Health & Accident Association	19	2,929,751	154,197	88.3	.3	11.4	2.5	6.6	2.3
41	John Hancock Mutual Life Insurance Co	52	8,412,824	161,785	83.9	7.6	8.5	1.9	.2	6.4
81	Union Casualty and Life Insurance Co	26	4,223,315	162,436	84.9	.9	14.2	6.1	.4	7.7
15	California Western States Life Insurance Co	8	1,671,094	208,886	86.9	9.6	3.5	1.1	.1	2.3
49	Metropolitan Life Insurance Co	4	1,308,121	327,031	78.5	9.8	11.7	1.6	----------	10.1
86	United Pacific Insurance Co	1	547,522	547,522	81.5	----------	18.5	3.0	----------	15.5
3	Amalgamated Life Insurance Co	7	8,498,782	1,214,111	79.2	14.7	6.1	----------	----------	6.1
	All other carriers	78	854,701	10,958	79.2	6.0	14.8	7.5	.3	7.0

Insurance carriers had more favorable claims experience on policies issued to unions than on those issued to other types of policyholders. For example, 34.7 percent of the 43 companies that had a substantial volume of business had loss ratios of less than 70 percent on policies issued to unions whereas 27.7 percent of the companies fared as well on policies issued to trust funds, and only 15.4 percent on those issued to employers, as shown in table 19.

TABLE 19.—*Percent distribution of insurance carriers, by loss ratios and type of policyholder, 1952*

[43 companies with substantial volume of business]

Claims ratio	Trusted funds	Unions	Employers
79.5 percent	100.0	100.0	100.0
50 to 59.9 percent	8.3	13.0	7.7
60 to 69.9 percent	19.4	21.7	7.7
70 to 79.9 percent	41.7	39.1	23.1
80 to 89.9 percent	22.2	13.0	15.4
90 to 99.9 percent	8.3	4.3	30.8
100 percent and over		8.7	15.4

In general, it was found that the claims ratio increased with the size of the policy. Table 18 shows the 43 insurance carriers with a substantial volume of business arranged in accordance with their average billed premium per policy. An examination of this table reveals that, in general, carriers with higher average billed premiums had higher claims ratios than those with lower billed premiums. This does not necessarily mean that their claims experience was worse than those of carriers with a lower average billed premium, but rather that the premium rates for larger policies are calculated more closely than those for smaller policies.

An analysis of claims ratios by size of policies reveals the following: [15]

Amount of billed premium:	*Aggregate claims ratio*
All policies	79.5
Under $5,000	65.3
$5,000 and under $10,000	67.9
$10,000 and under $30,000	72.0
$30,000 and under $50,000	72.6
$50,000 and under $100,000	75.0
$100,000 and under $250,000	79.7
$250,000 and under $500,000	75.5
$500,000 and under $1,000,000	83.1
$1,000,000 and over	84.7

[15] Subcommittee on Welfare and Pension Funds, interim report, January 10, 1955 (committee print), p. 24.

Outstanding exceptions are shown below:

Companies	Number of policies	Average billed premium	Aggregate claims ratio
All	1,596	$78,972	79.5
United Benefit Life Insurance Co	15	15,938	87.9
Lumberman's Mutual	18	42,440	95.7
Columbian National Life Insurance Co	12	45,345	69.1
Associated Indemnity Corp	4	90,070	65.2
West Coast Life Insurance Co	5	115,681	60.6
Security Mutual Life Insurance Co	29	144,178	63.4

(C) DIVIDENDS AND EXPERIENCE RATING REFUNDS

An important characteristic of group insurance is that its cost to the policyholder is directly related to the experience in his particular case. Thus, at the end of the policy year, each case is examined with respect to the claims experience; the cost of acquiring and retaining the business; the cost of administering the case, such as administrative expenses, cost of claims handling, taxes; and other factors. In most cases, the billed premium is more than enough to cover the above items. A part of the remainder is then returned to the policyholder by the insurance carrier in accordance with a "retention formula." Mutual insurance companies pay this amount in the form of a dividend, stock companies in the form of an experience rating refund.

With respect to the 1,596 policies issued or renewed in 1952, the 70 companies, in the aggregate, returned $10,228,000, or 8 percent of the billed premiums to the policyholders in the form of dividends and experience rating refunds. None was returned by 14 companies. These carriers, with 1 exception which had 15 policies, however, issued or renewed very few policies in 1952. Six of them accounted for only 1 policy each, 3 for 2 policies each, 2 for 3 policies, another for 4, and 1 had 6 policies. Moreover, the amounts of the billed premiums were small; for 11 carriers they ranged from $525 to $83,850. One company had one large policy with a billed premium of $547,522. The company with 15 policies had billed premiums totaling $238,993. Three of the companies lost money on that year's business and 1 company had only 1.4 percent of the billed premiums left after paying claims, commissions, and fees. The other 10 companies, however, had from 15.5 percent to 90 percent of the billed premiums left after making these payments.

Considering only the 43 companies with a substantial volume of business, the dividend or experience-rating refunds ranged from none to 24.5 percent of the billed premiums (table 18). More than two-thirds of the companies paid dividends or experience-rating refunds of

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5 percent or more of their billed premiums. This experience is summarized below:

Dividends or experience rating refunds as a percent of billed premiums:	*Percent of companies*
8.0	100.0
None	4.7
0.1 to 0.9	7.0
1.0 to 2.4	2.3
2.5 to 4.9	18.6
5.0 to 7.4	20.9
7.5 to 9.9	18.6
10.0 to 12.4	9.3
12.5 to 14.9	9.3
15.0 to 17.4	7.0
17.5 and over	2.3

Insurance carriers paid larger dividends or experience rating refunds to trusteed funds than to other types of policyholders. Of the 43 companies with a substantial volume of business, all of them made such payments to trust funds (table 20) but 21.7 percent made no such payments on policies issued to unions, and 38.5 percent made none on those issued to employers. Moreover, whereas 41.6 percent paid 10 percent or more of the billed premiums as dividends or experience rating refunds in the case of trust funds, only 17.3 percent paid as much in the case of policies issued to unions, and 7.7 percent in the case of those issued to employers.

TABLE 20.—*Percent distribution of insurance carriers by amount of dividends or experience rating refund, and by type of policyholder (43 companies)*

Dividends or experience rating refunds as a percent of billed premium	Type of policyholder					
	All types	Trustees	Unions	Employers	Employers' association	Employer and union
8.0	100.0	100.0	100.0	100.0	100	100
None	4.7	----------	21.7	38.5	----------	25
0.1 to 0.9	7.0	5.6	13.0	7.7	----------	25
1.0 to 2.4	2.3	5.6	8.7	15.4	----------	----------
2.5 to 4.9	18.6	16.7	13.0	15.4	----------	25
5.0 to 7.4	20.9	8.3	13.0	----------	----------	25
7.5 to 9.9	18.6	22.2	13.0	15.4	----------	----------
10.0 to 12.4	9.3	13.9	4.3	----------	----------	----------
12.5 to 14.9	9.3	11.1	8.7	----------	----------	----------
15.0 to 17.4	7.0	8.3	4.3	----------	----------	----------
17.5 and over	2.3	8.3	----------	7.7	----------	----------

Dividends and experience rating refunds tend to increase with the size of the policy.[16]

Annual billed premium:	*Dividends and experience rating refund as a percent of billed premium*
All	8.0
Under $5,000	4.9
$5,000 and under $10,000	5.1
$10,000 and under $30,000	5.9
$30,000 and under $50,000	6.6
$50,000 and under $100,000	8.3
$100,000 and under $250,000	8.0
$250,000 and under $500,000	13.0
$500,000 and under $1,000,000	9.5
$1,000,000 and over	5.4

(D) RETENTIONS

On the 1,596 policies, the 70 insurance companies retained an aggregate of 12.5 percent of the billed premiums. That is, after payment of incurred claims, and dividends and experience rating refunds, the companies retained 12.5 percent of the billed premiums for commissions and fees, other expenses, taxes, reserves, and profits (in the case stock companies). Losses were experienced in 13.7 percent of the policies. Four of the companies were unable to enjoy any retentions. In fact, they incurred losses. One of these companies had only one policy with a billed premium of $83,850 on which the claims ratio was 121.7 percent. Another had 2 small policies with billed premiums of only $4,515 on which the claims ratio aggregated 106.5 percent. A third had only one policy with a billed premium of $4,138. The experience rating refund of $274 earned the preceding year, and the claims ratio of 169.2 percent resulted in a loss (before commissions) of 75.8 percent. The fourth company had 2 policies with billed premiums of $61,542. One of these earned a small experience rating refund of $205. The claims ratio on these 2 policies was 168.5 percent, so that the company experienced a loss of 68.8 percent before the payment of commissions. At the other extreme, 7 companies had retentions of 50 percent or more of the billed premiums (appendix III, p. 337).

In the 43 companies with a substantial volume of business, the retentions ranged from 3.5 percent to 45.1 percent of billed premiums (table 18). Over three-fourths of the companies had retentions of 10 percent or more. Almost 42 percent had retentions of 10 percent to 15 percent of billed premiums. This is summarized below.

Total retentions as a percent of billed premiums:	*Percent of companies*
12.5	100.0
Under 5 percent	7.0
5 to 9	16.3
10 to 14.9	41.9
15 to 19.9	18.6
20 to 24.9	9.3
25 to 29.9	2.3
30 to 34.9	2.3
35 and over	2.3

[16] Idem.

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Insurance carriers generally fared better on policies issued to unions than on those issued to other types of policyholders, as shown in table 21. While 2 of the 43 companies doing a substantial volume of business paid out more in claims and dividends, or rate refunds, than they received in billed premiums from this type of policyholder, over 60 percent of the companies retained more than 15 pecent. Retentions of 25 percent or more of the billed premiums were experienced by 30.3 percent of the carriers. By comparison only 38.9 of the companies retained 15 percent or more, while only 13.9 percent of them retained 25 percent or more of billed premiums on trusteed plans; only 7.7 percent of the companies retained 25 percent or more of the billed premium on policies issued to employers.

TABLE 21.—*Percent distribution of insurance carriers by amount of the retention and by type of policyholder (43 companies)*

Total retention as percent of billed premium	Type of policyholder			Total retention as percent of billed premium	Type of policyholder		
	Trustee	Union	Employer		Trustee	Union	Employer
12.5	100.0	100.0	100.0	15 to 19.9	19.4	26.1	15.4
				20 to 24.9	5.6	4.3	15.4
Loss		8.7	15.4	25 to 29.9	8.3	13.0	7.7
Under 5 percent	5.6		7.7	30 to 34.9		4.3	
5 to 9.9	19.4	13.0	15.4	35 and over	5.6	13.0	
10 to 14.9	36.1	17.4	23.1				

Retentions by insurance companies, it has been pointed out, must cover commissions and service fees paid to agents, administration fees paid to policyholders, and other company acquisition and administration costs, taxes, reserves, and profits (in the case of stock companies). The relative magnitude of most of these items, as a percent of billed premiums, is generally smaller as the amount of billed premium increases. It is not surprising, therefore, to find that the larger the amount of billed premium the smaller the retentions reported by the carriers. For the 1,596 policies, retentions were under 10 percent in almost 25 percent of the policies; 20 percent and over in 53.3 percent of the policies; and 40 percent or more in 22.3 percent of the policies (table 22).

On small policies, those with billed premiums of less than $5,000 annually, retentions were 20 percent or more of billed premiums in 67.2 percent of the policies. Retentions were 30 percent, or more, in 55 percent of the policies with less than $10,000 in annual billed premiums. On policies of $10,000 to $30,000, retentions were 20 percent or more of billed premiums in 62.7 percent of the policies and 30 percent or more in 35.8 percent of the policies. Reflecting in large measure the change in commission rates which is generally found when the billed premiums exceed $30,000, it is found that the retention on policies between $30,000 and $50,000 of billed premiums was 20 percent or more in only 52.1 percent of the policies; and as much as 30 percent in almost 30 percent of the policies. Retentions were under 20 percent of the billed premiums in over 80 percent of the policies with billed premiums between $100,000 and $250,000.

TABLE 22.—*Retentions: Percent distribution of 1,596 policies issued or renewed in 1952 by retention rate and amount of billed premium*

Retention as a percent of billed premiums	Total	Under $5,000	$5,000–$9,999	$10,000–$29,000	$30,000–$49,999	$50,000–$99,999	$100,000–$249,999	$250,000–$499,999	$500,000–$999,999	$1,000,000 and over
Total number of policies	1,596	356	199	424	165	192	165	46	31	18
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Loss	13.7	21.3	14.1	13.0	7.9	9.9	10.9	6.5	12.9	11.1
Under 5 percent	3.4	1.1	3.5	4.7	3.0	3.6	4.2	----	9.7	11.1
5 to 9.9 percent	7.6	3.1	4.5	5.0	7.9	9.4	10.3	32.5	38.7	33.4
10 to 19.9 percent	22.0	7.3	6.5	14.6	29.1	37.0	55.2	52.2	38.7	22.2
20 to 29.9 percent	19.2	9.6	17.6	27.3	22.4	26.6	15.8	6.5	----	22.2
30 to 39.9 percent	12.8	10.1	19.1	17.5	19.4	10.9	2.4	----	----	----
40 to 49.9 percent	7.3	9.0	12.6	9.4	7.9	2.1	.6	2.3	----	----
50 to 74.9 percent	8.3	15.2	20.6	7.3	2.4	.5	.6	----	----	----
75 percent and over	5.7	23.3	1.5	1.2	----	----	----	----	----	----

7. COMMISSIONS AND FEES

Commissions and fees constitute the largest single items of expense of insurance carriers. Together, in the cases studied, they absorbed almost 35 percent of the companies' retentions. They accounted for 4.3 percent of the billed premiums.

(A) COMMISSIONS

Commissions paid by the 70 companies to their agents and brokers accounted for 27.2 percent of the retentions. These companies paid, in the aggregate, commissions amounting to 3.4 percent of the billed premiums (appendix III). The commissions include renewal commissions as well as first-year commissions. All of the companies pay such commissions except five.[17] One of the 5 companies accounted for 16 policies (billed premiums of $526,462), another for 7 policies (billed premiums of $8,498,782). The other 3 companies had only 1 policy each with billed premiums of $91,776, $15,143, and $4,264, respectively. Commissions paid by the 65 companies ranged from 1 percent in the case of a company with 5 policies (billed premiums of $578,407) to 24 percent in the case of a company with 3 policies (billed premiums of $8,479).

[17] American Mutual Liability Insurance Co.; Guaranty Union Life Insurance Co.; Liberty Mutual Insurance Co.; Mutual Service Life Insurance Co.; Amalgamated Life Insurance Co.

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Almost 60 percent of the 43 companies with a substantial volume of business paid first year and renewal commissions amounting to less than 4 percent of the billed premiums. This is summarized below:

Commissions as a percent of billed premiums:	*Percent of companies*
3.4	100.0
0	4.6
Under 1	0
1 to 1.9	16.3
2 to 2.9	16.3
3 to 3.9	18.6
4 to 4.9	16.3
5 to 5.9	7.0
6 to 6.9	7.0
7 to 7.9	0
8 to 8.9	2.3
9 to 9.9	2.3
10 to 10.9	4.7
11 and over	4.6

Commissions paid by the various carriers were generally higher in the case of policies issued to unions than in the case of those issued to trustees or to employers, as shown in table 23. It will be recalled, however, that policies issued to unions are smaller. As is shown below, of the 43 companies with a substantial volume of business, 61 percent of the companies paid commissions of 5 percent or more on policies issued to unions; less than 31 percent of the companies paid as much on policies issued to trustees or to employers.

TABLE 23.—*Percent distribution of insurance companies, by rate of commission and by type of policyholder (43 companies)*

Rate of commission	Type of policyholder		
	Trustees	Unions	Employers
3.4	100.0	100.0	100.0
0.0	5.6		
Under 1	2.8	4.3	7.7
1 to 1.9	11.1		15.4
2 to 2.9	13.9	26.1	30.8
3 to 3.9	22.2	4.3	7.7
4 to 4.9	13.9	4.3	7.7
5 to 5.9	16.7	8.7	7.7
6 to 6.9		17.4	7.7
7 to 7.9	2.8	4.3	
8 to 8.9		13.0	
9 to 9.9	2.8	4.3	
10 to 10.9	2.8		15.4
11 and over	5.6	13.0	

Since commissions are generally paid in accordance with decremental scales[18] it is not surprising to find that, in general, carrier paid out more in commissions on cases with smaller annual billed premiums than on those with larger annual billed premium. An array of the insurance carriers by average amount of their billed premiums shows that as the average billed premium increases, the com-

[18] Subcommittee on Welfare and Pension Funds, op. cit., pp. 22–23.

missions (first year and renewal) as a percent of billed premium decreases. The outstanding exceptions are shown below:

Company	Number of policies	Average billed premium	Commissions as a percent of billed premiums
All	1,596	$79,872	3.4
United Benefit Life Insurance Co	15	15,933	10.4
Eastern Casualty Co	24	27,425	13.6
American Progressive Health Insurance Co	1	112,209	15.0
Security Mutual Life Insurance Co	29	144,178	10.4
Union Casualty & Life Insurance Co	26	162,785	6.1

An analysis of commissions paid on policies issued and renewed in 1952 by size of policies, in terms of amount of billed premium, shows the following:

Annual billed premium:	*Commissions as a percent of billed premium*
Total	3.4
Under $5,000	10.3
$5,000 and under $10,000	9.4
$10,000 and under $30,000	8.3
$30,000 and under $50,000	6.3
$50,000 and under $100,000	4.5
$100,000 and under $250,000	3.4
$250,000 and under $500,000	2.4
$500,000 and under $1,000,000	1.2
$1,000,000 and over	2.2

The noticeable difference between policies below and those above $30,000 in billed premiums reflects the sharp drop in the usual commission scales which occurs when the premium of a policy exceeds $30,000 in annual billed premiums.[19]

(B) FEES

Although service fees are not commonly paid to brokers and policyholders, they were reported by almost half of the 70 insurance companies. In some cases, they appear to have been made to agents to supplement relatively low commissions on larger policies. In the aggregate, the 70 companies paid service fees amounting to 0.9 percent of their billed premiums, or 7.2 percent of their retentions. For the companies that paid such fees, they ranged from 0.1 to 6.6 percent of the billed premiums. Of the 43 companies with a substantial volume of business, 27 paid such fees. Over 30 percent of these, however, paid service fees of less than 1 percent of their billed premiums; 16.3 percent paid between 1 and 2 percent; 11.6 percent between 2 and 3 percent; and 4.6 percent between 5 and 7 percent.

More insurance companies (70 percent of the companies) paid service fees on policies issued to unions than on policies issued to other types of policyholders (trust funds, 58 percent; employers, 38.5 percent). On the other hand, service fees aggregating as high as 9 percent of billed premiums were paid on policies issued to trust funds; whereas they were below 6 percent on policies issued to unions, and 3 percent on those issued to employers.

[19] Subcommittee on Welfare and Pension Funds, op. cit., p. 21.

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Service fees tended to be higher on larger policies than on smaller ones. While they amounted to only 0.6 percent of policies under $10,000 in billed premiums, they were 1 percent or more on policies of $30,000 or more in billed premiums. As shown in table 18, they tended to rise as the commissions decreased.

8. NET RETENTIONS

The term "net retention" as used here applies to that part of the billed premium received by an insurance carrier from the policyholder which is retained by it after accounting for (1) incurred claims and dividends or experience rating refunds, and (2) agents' and brokers' commissions, and (3) service fees. It is the amount which the carrier retains to cover other acquisition costs, administrative costs, taxes, reserves and profits (in the case of a stock company).

(A) AMOUNTS

On the 1,596 policies, the 70 companies had net retentions of 8.2 percent of their billed premiums. However, 7 of the 70 companies had no retentions. For them the excess of claims, dividends, commissions, and fees over the billed premiums ranged from 0.3 to 79.3 percent of billed premiums. For the remaining 63 companies, the net retentions ranged from 1.0 to 90.1 percent of the billed premiums.

Of the 43 companies with a substantial volume of business, only one had paid out more (6.6 percent) for claims, dividends or experience rating refunds, and commissions than it received in billed premiums (table 18). The other 42 had net retentions that ranged from 1 to 26.3 percent of the billed premiums. About 21 percent of the 43 companies had net retentions of less than 5 percent of billed premiums; almost 42 percent had net retentions of 5 to 10 percent, and over 25 percent of the companies had from 10 to 15 percent. This is summarized below.

Net retention as a percent of billed premium:	*Percent of companies*
8.2	100.0
Loss	2.3
Under 5 percent	18.6
5 to 9 percent	41.9
10 to 14.9 percent	25.6
15 to 19.9 percent	7.0
20 to 24.9 percent	2.3
25 percent and over	2.3

(B) TYPE OF POLICYHOLDER

Insurance carriers fared better on policies issued to unions than on those issued to other types of policyholders, as shown in table 24. Net retentions of 10 percent or more were experienced by almost 52 percent of the companies when the policies were issued to unions, but by 47 percent and by 30 percent of the companies when the policies were issued to trustees and employers, respectively.

TABLE 24.—*Percent distribution of insurance carriers by amount of net retention and type of policyholder*

Net retention as a percent of billed premium	Type of policyholder		
	Trustees	Unions	Employers
8.2	100.0	100.0	100.0
Loss	5.6	13.0	15.4
0		4.3	
Under 5 percent	16.7		7.7
5 to 9.9 percent	30.6	30.4	46.2
10 to 14.9 percent	30.6	17.4	15.4
15 to 19.9 percent	11.1	13.0	15.4
20 to 24.9 percent		8.7	
25 percent and over	5.6	13.0	

(C) SIZE OF POLICY

As is to be expected from the foregoing analysis, the larger the policy in terms of billed premium, the lower the net retention. This is summarized below:

Amount of billed premium:	*Net retention as a percent of billed premium*
Total	8.2
Under $5,000	18.2
$5,000 and under $10,000	17.0
$10,000 and under $30,000	12.9
$30,000 and under $50,000	13.5
$50,000 and under $100,000	11.2
$100,000 and under $250,000	8.0
$250,000 and under $500,000	8.0
$500,000 and under $1,000,000	4.9
$1,000,000 and over	6.7

D. UNIONS INVOLVED

At least 107 different trade unions were involved in one way or another in the 1,596 policies issued or renewed in 1952 by the 70 carriers (appendix IV). Most of them were represented together with management on the boards of trustees of health and welfare funds. A few were the holders of the group-insurance policies.

1. SIZE OF POLICY

The largest policies were issued to policyholders covering members of Amalgamated Clothing Workers of America (CIO). This union was involved in only 11 policies but these averaged $859,360 each. This is easily understandable when it is recalled that 7 of the policies, with almost $8,499,000 in billed premium, were issued by the Amalgamated Life Insurance Co., Inc.—an insurance company whose stock is wholly owned by the company's only policyholder, the Almagamated Insurance Fund. The fund is the result of industrywide bargaining between employers in several related industries and the union.

Plans involving the International Union of Upholsterers of North America averaged $730,631 in billed premiums on 5 policies. This again illustrates the result of industrywide or areawide union bargaining.

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Other similar examples are: the American Federation of Hosiery Workers (AFL) involved in 2 policies averaging over $305,000 in billed premiums; the Distillery, Rectifying and Wine Workers (AFL), 5 policies averaging over $373,750; the National Maritime Union (CIO), 4 policies averaging over $428,550; the United Furniture Workers of America (CIO), 2 policies averaging over $513,900 and the National Union of Marine Cooks and Stewards (Ind.), 1 policy with over $361,420 in billed premium.

On the basis of union membership, it is found that policies covering members of unions affiliated with the American Federation of Labor tended to be only slightly smaller than those covering members of unions affiliated with the Congress of Industrial Organizations (table 25). Those covering members of independent unions were the smallest. For example, while 60.4 percent of the policies covering members of AFL unions had less than $30,000 in annual premiums, only 55.9 percent of the policies on members of CIO unions were that small. As many as 78.1 percent of the policies on members of independent unions were as small.

TABLE 25.—*Percent distribution of insurance policies by union affiliation and by size of policy*

Amount of billed premium	Total	American Federation of Labor	Congress of Industrial Organizations	Independent	Single firm union	Unknown
Total	100.0	100.0	100.0	100.0	100.0	100.0
Under $5,000	22.4	20.0	19.9	42.5	18.0	38.0
$5,000 and under $10,000	12.5	11.9	14.0	13.6	4.0	19.7
$10,000 and under $30,000	26.6	28.5	22.0	22.0	24.0	24.2
$30,000 and under $50,000	10.3	10.4	13.0	4.2	8.0	10.6
$50,000 and under $100,000	12.0	12.9	14.0	4.2	12.0	3.0
$100,000 and under $250,000	10.3	10.6	9.9	9.3	18.0	4.5
$250,000 and under $500,000	2.9	3.2	2.1	1.7	8.0	----
$500,000 and under $1,000,000	1.9	1.7	2.7	1.7	6.0	----
$1,000,000 and over	1.1	.8	2.4	.8	2.0	----
Number of policies	1,596	1,070	292	118	50	66

2. INSURANCE CARRIERS USED

Since all the policies reported by the insurance carriers were policies in which the unions representing the bargaining units had a voice in the selection of the carrier, it is of interest to examine the frequency with which members of a given union are covered by a particular insurance company.

Among the unions with members covered by 10 or more policies none were found to be covered by only 1 carrier. Even the members of the Amalgamated Clothing Workers, an organization that controls 2 insurance companies, utilized 4 carriers—obviously in States where the 2 companies were not licensed or authorized to do business. One union's members were covered by only 2 carriers. Members of the Boot and Shoe Workers (AFL) were covered by 15 policies, 14 of which were with the Washington National Insurance Co.; the other with Bankers Life Insurance Co. Members of the Teamster's Union (AFL), on the other hand were covered by 237 policies, with billed premiums of $24,275,000 and issued by 37 different companies. One insurance company, the Occidental Life Insurance Co. of California,

had 76 of these policies; another, the Union Casualty & Life Insurance Co., had 5. The first company's policies accounted for 36 percent and the second for 11 percent of the billed premiums on the 237 policies.

In terms of policies, few of the 48 unions with members covered by 10 or more policies appeared to favor any 1 carrier. Only 14 of them were found to have one-third or more of the policies issued by 1 carrier, and only 13 had one-half or more of the policies issued by 2 carriers. However, with respect to the coverage of members of 26 of the 48 unions, it was found that a given carrier had issued policies accounting for one-third, or more, of the aggregate billed premiums of the companies covering the members of these unions. With respect to the members of each of 27 of these unions, 50 percent or more of the billed premiums was concentrated in 2 carriers.

Few of the different unions appeared to have the same carrier as their first or second choice.

3. CLAIMS RATIO

As was seen when insurance carrier data was analyzed, the larger the average billed premium, the higher the claims ratio. An examination of the data reported also reveals that on the whole the claims ratio on policies covering members of the CIO unions was somewhat higher than that on those covering members of other unions. For example, claims incurred on policies covering members of CIO unions amounted to 83.6 percent of the billed premiums, whereas on those covering members of AFL unions they amounted to only 76.9 percent; and on members of independent unions, 79.4 percent. It will be noted, however, that the policies covering members of CIO unions averaged $115,439 in billed premiums whereas for the other 2 groups they averaged $72,560 and $63,799, respectively.

Among the AFL unions, the claims ratio ranged from 52.8 percent of billed premiums for members of Federal labor unions to 110.1 percent for members of the American Federation of Hosiery Workers. Another AFL union with a high claims ratio was the Amalgamated Street, Electrical Railway and Motor Coach Employees of America with 98.2 percent of billed premium.

Among the CIO unions the claims ratios ranged from 69.4 percent for members of the Textile Workers Union of America to 101 percent for members of the National Maritime Union.

Among the independent unions the claims ratios ranged from 71.2 percent for members of the International Fur and Leather Workers Union of United States and Canada to 117.1 percent for members of Independent Watchmen's Association.

4. DIVIDENDS AND EXPERIENCE RATING REFUNDS

On the whole, dividends and experience rating refunds were higher on policies covering members of independent unions (9.4 percent) than on those covering members of AFL unions (8.4 percent) and on those covering members of CIO unions (7.5 percent).

With respect to policies covering members of AFL unions, dividends and experience rating refunds ranged from none on policies covering members of the International Molders and Foundry Workers to 25.4 percent of billed premiums where the insured were members of

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the Hod Carriers and Common Laborers' Union. It may be noted that for the members of the first union the claims ratio was 90.6 percent, and for those of the second union it was only 55.3 percent. Moreover, for the policies covering members of these unions, annual billed premiums average $20,910, and $82,495, respectively. The experience with policies covering members of the other two groups was somewhat similar.

5. RETENTIONS

Retentions on policies covering members of AFL unions on the whole were somewhat higher than on those covering members of the other two groups, while in general they were higher on smaller policies than on the larger ones. There were many instances where even on large policies the retentions appeared to be high. These are listed below:

Union	Number of policies	Average billed premium	Retention as a percentage of billed premium
All unions	1,596	$79,872	12.5
AFL unions	1,070	72,560	14.7
Pulp, Sulphite, and Paper Mill	10	34,897	17.5
Metal Polishers, Buffers, Platers, and Helpers	3	49,131	28.4
Bricklayers, Masons, and Plasterers	21	53,082	19.5
Seafarers International	3	57,516	41.4
Plasterers and Cement Masons	12	57,535	18.1
Carpenters and Joiners	33	73,375	22.7
Operating Engineers	27	38,975	18.3
Bakery and Confectionery Workers	42	39,671	19.0
Hod Carriers, Building and Common Laborers	34	82,495	19.3
Laundry Workers	11	125,838	29.9
Distillery, Rectifying, and Wine Workers	5	373,754	26.3
Upholsterers	5	730,631	18.5
CIO unions	292	115,439	9.0
Glass, Ceramic, and Silico Sand Workers	4	52,989	17.5
Rubber, Cork, Linoleum, and Plastic Workers	11	58,701	17.9

Claims, dividends, and experience rating refunds exceeded billed premiums on policies covering members of the following unions:

Union	Number of policies	Average billed premium	Retention as a percent of billed premium
American Federation of Hosiery Workers, AFL	2	$305,013	−10.7
National Maritime Union, CIO	4	428,554	−1.4
Independent Watchmen's Association, Independent	3	50,695	−17.1

6. COMMISSIONS AND SERVICE FEES

Since the average billed premiums on policies covering members of the AFL union were generally low, it is not surprising to find that, on the whole, commissions were higher on these policies than on those covering members of other groups. However, there were many instances where even on large policies the commissions appeared somewhat high. In the aggregate, on the 15 policies covering members of the Boot and Shoe Workers Union (AFL) and averaging $4,585 in billed premiums, commissions amounted to 16.5 percent of billed

premiums. On the 11 policies covering members of the Laundry Workers Union (AFL), with an average billed premium of $125,838, commissions amounted to 8.8 percent of the billed premiums. They amounted to 11.3 percent on the 5 policies of the Distillery, Rectifying, and Wine Workers Union (AFL), which averaged $373,754 in billed premiums.

Service fees were paid on the policies covering the majority of the unions. With respect to the policies involving a few unions, the aggregate of commissions and service fees paid to agents were significant. Those in which they amounted to 10 percent of billed premiums or more are shown below:

Union	Number of policies	Average billed premium	Commissions plus service fees as a percent of billed premiums
International Jewelry Workers	17	$26,495	10.6
International Laundry Workers	11	125,835	11.0
Distillery, Rectifying, and Wine Workers	5	373,754	13.2

7. NET RETENTIONS

It has already been pointed out that in the aggregate, after paying claims, dividends, and experience rating refunds, commissions and fees, the insurance carriers had "net retentions" of 8.2 percent of the billed premiums left to cover other acquisition and administrative expenses, taxes, surpluses, and profits (in the case of stock companies). Grouping the policies on the basis of the trade unions whose members are covered, it is found that for a number of the unions the net retentions were substantially above 8.2 percent of the billed premiums. For 15 of the AFL unions and for 3 of the CIO unions net retentions ranged from 13.6 percent to 38 percent of the billed premiums. These are shown on the list below:

Union	Number of policies	Average billed premium	Net retentions as a percent of billed premium
AFL unions:			
Boot & Shoe Workers	15	$4,585	17.9
Federal Labor Unions	28	11,227	23.8
Roofers, Damp & Waterproof Workers	9	16,083	18.7
Photoengravers	9	30,989	17.2
Patternmakers League	5	32,417	18.1
Marble, Slate & Stone Polishers	3	36,834	19.4
Bakery & Confectionery Workers	42	39,671	14.0
Metal Polishers, Buffers & Platers	3	49,131	21.5
Bricklayers, Masons & Polishers	21	53,082	15.8
Seafarers' International Union	3	57,516	38.0
Plasterers & Cement Masons	12	57,535	14.6
Carpenters & Joiners	33	73,375	13.9
Hodcarriers, Building & Common Laborers	34	82,495	14.0
Laundry Workers	11	125,838	18.9
Upholsterers	5	730,631	15.3
CIO unions:			
Textile Workers	18	23,916	21.0
Retail, Wholesale, & Department Store Workers	26	28,757	13.6
Glass, Ceramic, & Silico Sand Workers	4	52,989	14.5

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On the basis of net retentions, insurance carriers lost money, in the aggregate, on policies covering members of 6 unions: International Union of Wood, Wire & Metal Lathers (AFL), 1.2 percent of billed premiums; Amalgamated Union of Street, Electrical Railway & Motor Coach Employees (AFL), 6.9 percent; American Federation of Hosiery Workers (AFL), 11.8 percent; National Maritime Union (CIO), 2.6 percent; International Union of Mine, Mill & Smelter Workers (Ind.), 4 percent; and the Independent Watchmen's Association (Ind.), 19.9 percent.

E. AGENTS AND BROKERS

It is well known that in many cases more than one agent or broker participated in individual cases. While insurance carriers reported the agents that participated in their cases, in instances in which two or more agents had a common interest, the respective interest of each was not reported. The data with respect to agents and brokers, therefore, are very inconclusive.

The questionnaires reported by the 70 carriers showed that for the period 1948–53, approximately 1,500 agents and brokers participated in the 2,500 cases. This indicates that, by far, most brokers participated in only one case.

There were only 13 agents and brokers who participated in 23 or more policies during the period. Together, these agents handled 25 percent of the policies reported.

A few of the agents, being general agents of certain insurance carriers, placed nearly all of their business with those carriers. Ten of the thirteen agents and brokers placed one-half or more of their group insurance policies with one carrier. The bulk of the business reported for some of these agents consisted of group insurance policies in which the unions had a voice in the selection of the insurance carrier.

APPENDIX I

Number of policies issued and cancelled, 1926–53, and in force by end of 1953, by carrier (policies issued by 79 carriers)

Code	Union name	Policies				
		Issued	Canceled		In force end of 1953	
			Number	Percent	Number	Percent
	Total	2,497	424	17.0	2,073	83.0
	Subtotal	2,348	406	17.3	1,942	82.7
	Carriers with 10 or more policies:					
01	Aetna Life Insurance Co	134	10	7.5	124	92.5
04	American Casualty Company of Reading	44	22	50.0	22	50.0
11	Bankers Life Co	56	22	39.3	34	60.7
12	Benefit Association of Railroad Employees	39	15	38.5	24	61.5
15	California Western States Life Insurance Co	10			10	100.0
18	Columbian National Life Insurance Co	13	2	15.4	11	84.6
20	Connecticut General Life Insurance Co	121	22	18.2	99	81.8
21	Continental Assurance Co	89	15	16.9	74	83.1
22	Continental Casualty Co	224	47	21.0	177	79.0
25	Eastern Casualty Co	36	5	13.9	31	86.1
27	Equitable Life Assurance Society of the United States	53	7	13.2	46	86.8
28	Farm Bureau Mutual Automobile Insurance Co	16	9	56.3	7	43.7
32	General American Life Insurance Co	15			15	100.0
34	Great West Life Assurance Co	13	2	15.4	11	84.6
40	Inter-Ocean Insurance Co	12			12	100.0
41	John Hancock Mutual Life Insurance Co	84	30	35.7	54	64.3
43	Liberty Mutual Insurance Co	18			18	100.0
44	Lincoln National Life Insurance Co	40	2	5.0	38	95.0
45	Lumbermen's Mutual Casualty Co	23	3	13.0	20	87.0
47	Massachusetts Mutual Life Insurance Co	28	3	10.7	25	89.3
49	Metropolitan Life Insurance Co	10	2	20.0	8	80.0
51	Mutual Benefit Health & Accident Association	46	1	2.2	45	97.8
56	New York Life Insurance Co	65	2	3.1	63	96.9
61	Occidental Life Insurance Company of California	245	26	10.6	219	89.4
63	Pacific Mutual Life Insurance Co	77	24	31.2	53	68.8
64	Pan American Life Insurance	10			10	100.0
69	Provident Life & Accident Insurance Co	55	5	9.1	50	90.9
70	Prudential Insurance Company of America	91	10	11.0	81	89.0
75	Security Mutual Life Insurance Co	61	17	27.9	44	72.1
78	State Mutual Life Assurance Co	63	32	50.8	31	49.2
79	Sun Life Assurance Co	10	2	20.0	8	80.0
80	Travelers Insurance Co	84	9	10.7	75	89.3
81	Union Casualty & Life Insurance Co	54	19	35.2	35	64.8
83	Union Labor Life Insurance Co	228	34	14.9	194	85.1
85	United Benefit Life Insurance Co	32	1	3.1	31	96.9
87	United States Life Insurance Co	68			68	100.0
88	Washington National Insurance Co	58	3	5.2	55	94.8
89	West Coast Life Insurance Co	10			10	100.0
91	Zurich General Accident & Liability Insurance Co., Ltd	13	3	23.1	10	76.9
	All other carriers	149	18	12.1	131	87.9

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APPENDIX II

Number of policies issued and cancelled, 1926–53, and in force by end of 1953, by union (policies issued by 79 carriers)

Code	Union name	Policies				
		Issued	Canceled		In force end of 1953	
			Number	Percent	Number	Percent
	Total, all unions	2,497	424	17.0	2,073	83.0
	Subtotal, unions with 10 or more policies	2,079	352	16.9	1,727	83.1
	Subtotal, other unions	418	72	17.2	346	82.8
	Total, AFL	1,726	280	16.2	1,446	83.8
	Unions with 10 or more policies: Subtotal	1,597	260	16.3	1,337	83.7
101	Federal Labor Union	32	7	21.9	25	78.1
106	Asbestos Workers International Association	34	1	2.9	33	97.1
108	Bakery & Confectionery Workers International Union	70	9	12.9	61	87.1
109	Barbers, Hairdressers, Cosmetologists, and Proprietors	13	4	69.2	9	69.2
115	Bricklayers, Mason and Plasterers International Union	27	2	7.4	25	92.6
116	Bridge, Structural, and Ornamental Iron Workers	34	1	2.9	33	97.1
118	Building Service Employees' International Union	45	14	31.1	31	68.9
119	Carpenters and Joiners of America, United Brotherhood of	49	7	14.3	42	85.7
126	Distillery, Rectifying, and Wine Workers International Union	10	3	30.0	7	70.0
127	Electrical Workers, International Brotherhood of	47	5	10.6	42	89.4
129	Engineers, International Union of Operating	38	4	10.5	34	89.5
134	Garment Workers Union, International Ladies	14	4	28.6	10	71.4
136	Glass Cutters' League of America, Window	14	1	7.1	13	92.9
141	Handbag, Luggage, Belt & Novelty Workers' Union	10	3	30.0	7	70.0
143	Hod Carriers, Building & Common Laborers' Union	56	10	17.9	46	82.1
145	Hotel & Restaurant Employees & Bartenders International Union	126	34	27.0	92	73.0
146	Jewelry Workers' Union, International	28	7	25.0	21	75.0
147	Lathers, International Union of Wood, Wire & Metal	17	2	11.8	15	88.2
148	Laundry Workers' International Union	14	3	21.4	11	78.6
155	Meat Cutters & Butcher Workmen of North America, Amalgamated	45	9	20.0	36	80.0
161	Molders & Foundry Workers Union of North America, International	11	1	9.1	10	90.9
162	Musicians, American Federation of	17			17	100.0
164	Painters, Decorators & Paperhangers of America, Brotherhood of	73	7	9.6	66	90.4
166	Pattern Makers' League of North America	11	2	18.2	9	81.8
167	Photo-Engravers' Union of North America, International	12	1	8.3	11	91.7
168	Plasterers and Cement Masons' International Association of the United States & Canada, Operative	27	4	14.8	23	85.2
170	Plumbing & Pipe Fitting Industry of the United States & Canada	82	11	13.4	71	86.6
175	Printing Pressmen & Assistants' Union of North America	13	1	7.7	12	92.3
176	Pulp, Sulphite & Paper Mill Workers', International Brotherhood of	15	5	33.3	10	66.7
184	Retail Clerks International Association	83	21	25.3	62	74.7
185	Roofers, Damp & Waterproof Workers Association, United States	16			16	100.0
187	Sheet Metal Workers' International Association	50	5	10.0	45	90.0
188	Shoe Workers Union, Boot &	17	1	5.9	16	94.1
192	Stage Employees & Moving Picture Machine Operators of United States & Canada	28	3	10.7	25	89.3
197	Street, Electric Railway & Motor Coach Employees	23	6	26.1	17	73.9
200	Teamsters, Chauffeurs, Warehousemen & Helpers of America, International Brotherhood of	347	57	16.4	290	83.6

APPENDIX II—Continued

Number of policies issued and cancelled, 1926–53, and in force by end of 1953, by union (policies issued by 79 carriers)—Continued

Code	Union name	Policies				
		Issued	Canceled		In force end of 1953	
			Number	Percent	Number	Percent
204	Typographical Union, International	10			10	100.0
218	Machinists, International Association of	39	5	12.8	34	87.2
	Other unions	129	20	15.5	109	84.5
	Total, Congress of Industrial Organizations	413	94	22.8	319	77.2
	Unions with 10 or more policies: Subtotal	333	71	21.3	262	78.7
302	Automobile, Aircraft & Agricultural Implement Workers of America, International	101	31	30.7	70	69.3
303	Barbers & Beauty Culturists Union of America	12	4	33.3	8	66.7
304	Brewery, Flour, Cereal, Soft Drinks & Distillery Workers of America, International	12	1	8.3	11	91.7
316	Lithographers of America, Amalgamated	37			37	100.0
332	Retail, Wholesale & Department Store Union	38	8	21.1	30	78.9
333	Rubber, Cork, Linoleum & Plastic Workers	15	7	46.7	8	53.3
335	Steelworkers of America, United	71	10	14.1	61	85.9
337	Textile Workers of America	28	8	28.6	20	71.4
343	Woodworkers of America, International	19	2	10.5	17	89.5
	Other Unions	80	23	28.8	57	71.2
	Total independent	182	32	17.6	150	82.4
	Unions with 10 or more policies: Subtotal	149	21	14.1	128	85.9
455	Mine Workers of America, United	33	6	18.2	27	81.8
480	Longshoremen's & Warehousemen's Union, International	47	1	2.1	46	97.9
495	Mine, Mill & Smelter Workers, International Union of	10	1	10.0	9	90.9
497	Fur & Leather Workers Union of United States and Canada, International	26	8	30.8	18	69.2
511	Longshoremen's Association, International	33	5	15.2	28	84.8
	Other unions	33	11	33.3	22	66.7
	Single firm union, total	79	5	6.3	74	93.7
	Union unknown, total	97	13	13.4	84	86.6

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APPENDIX III

Transactions of 70 insurance carriers, by carrier: Group policies issued or renewed in 1952—Policies issued as a result of collective bargaining to union funds and other entities where unions appear to have a voice in the selection of the insurance carrier

Code	Insurance carrier	Amount of—							
		Number of policies	Billed premium	Incurred claims	Dividends and experience rating refunds	Retentions			
						Total, column 3—(columns 4+5)	Commissions	Fees and allowances	Remainder to company, column 6—(columns 7+8)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	All carriers	1,596	$127,475,757	$101,324,918	$10,228,468	$15,922,371	$4,326,018	$1,158,368	$10,437,985
01	Aetna Life Insurance Co	84	6,715,981	5,121,457	900,286	694,238	166,353		527,885
03	Amalgamated Life Insurance Co	7	8,498,782	6,736,862	1,245,922	515,998			515,998
04	American Casualty Company of Reading	25	1,214,153	1,058,064	30,172	125,917	62,576	4,332	59,009
07	American Mutual Liability Insurance Co	1	91,776	74,390	4,808	12,578			12,578
08	American Progressive Insurance Company of New York	1	112,209	94,989	7,822	9,398	16,826		−7,428
09	Associated Indemnity Corp	4	360,283	235,031	54,258	70,994	4,716		66,278
11	Bankers Life Co	32	1,437,447	1,184,982	69,601	182,864	32,711	23,180	126,973
12	Benefit Association of Railroad Employees	23	964,608	753,491	63,446	147,671	44,859	17,044	85,768
13	Businessmen's Assurance Company of America	8	70,080	62,046	1,720	6,314	6,533		−219
15	California Western States Life Insurance Co	8	1,671,094	1,451,907	160,158	59,029	18,293	1,617	39,119
16	Canada Life Insurance Co	1	4,138	7,000	274	−3,136	144		−3,280
18	Columbian National Life Insurance Co	12	544,117	376,054	32,827	135,236	21,514	10,361	103,361
20	Connecticut General Life Insurance Co	78	5,132,621	3,961,845	536,979	633,797	219,844	125	413,828
21	Continental Assurance Co	63	4,151,319	3,182,994	318,947	649,378	167,233	101,876	380,269
22	Continental Casualty Co	135	2,982,024	1,883,606	491,801	606,617	133,879	33,112	439,626
23	Crown Life Insurance Co	5	52,290	32,445	3,380	16,465	5,560		10,905
24	Dominion Life Assurance Co	1	525			525	52		473
25	Eastern Casualty Co	24	658,197	346,653	14,259	297,285	89,806	34,442	173,037
26	Eastern Life Insurance Company of New York	3	8,479	3,000		5,479	2,034	507	2,938
27	Equitable Life Assurance Society of the United States	47	5,999,121	4,998,595	368,671	631,855	135,403		496,452
28	Farm Bureau Mutual Automobile Insurance Co	9	235,340	163,510	30,819	41,011	14,299		26,712
29	Federal Life Insurance Co	1	28,799	18,292	4,640	5,867	1,295		4,572
30	Founder's Insurance Co	2	241,960	180,465	20,897	40,598	9,679		30,919
31	General Accident Fire & Life Assurance Corp	3	117,498	93,379	9,886	14,233	3,999		10,234
32	General American Life Insurance Co	9	805,867	571,271	116,800	117,796	26,968		90,828
34	Great West Life Assurance Co	10	324,722	264,747	9,257	50,718	21,797	7,214	21,707

UNIVERSITY OF MICHIGAN LIBRARIES

APPENDIX III—Continued

Transactions of 70 insurance carriers, by carrier: Group policies issued or renewed in 1952—Policies issued as a result of collective bargaining to union funds and other entities where unions appear to have a voice in the selection of the insurance carrier—Continued

Code	Insurance carrier	Amount of—							
		Number of policies	Billed premium	Incurred claims	Dividends and experience rating refunds	Retentions			
						Total, column 3—(columns 4+5)	Commissions	Fees and allowances	Remainder to company, column 6—(columns 7+8)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
35	Guaranty Union Life Insurance Co	1	15,143	10,969		4,174			4,174
37	Hartford Accident & Indemnity Co	2	21,376	9,521	4,431	7,424	1,484		5,940
38	Home Life Insurance Co	7	207,118	181,525	6,737	18,856	3,909		14,947
40	Inter-Ocean Insurance Co	4	34,789	18,598		16,191	4,282		11,909
41	John Hancock Mutual Life Insurance Co	52	8,412,824	7,058,637	640,219	713,968	161,931	13,273	538,764
42	Liberty Life Insurance Co	1	63,304	46,096	8,000	9,208	2,756		6,452
43	Liberty Mutual Insurance Co	16	526,462	417,555	42,487	66,420			66,420
44	Lincoln National Life Insurance Co	28	2,033,062	1,649,538	136,718	246,806	77,688	1,937	167,181
45	Lumberman's Mutual Casualty Co	18	763,917	731,054	4,484	28,379	20,678		7,701
46	Manhattan Insurance Co	2	13,839	4,000		9,839	2,879	691	6,269
47	Massachusetts Mutual Life	18	1,114,920	1,019,649	48,106	47,165	64,751		−17,586
49	Metropolitan Life Insurance Co	4	1,308,121	1,027,169	127,650	153,302	21,147		132,155
51	Mutual Benefit Health & Accident Association	19	2,929,751	2,588,457	7,479	333,815	74,152	193,442	66,221
52	Mutual Service Life Insurance Co	1	4,264	1,176		3,088			3,088
53	National Casualty Co	2	4,515	4,810		−295	452		−747
56	New York Life Insurance Co	24	2,506,528	1,960,584	288,940	257,004	84,296		172,708
57	North American Accident Insurance Co	6	5,076	2,500		2,576	778	144	1,654
59	Northwestern Life Insurance Co	3	51,013	26,102		24,911	2,719		22,192
60	Northwestern National Life Insurance Co	4	69,514	48,710	6,221	14,583	4,684	312	9,587
61	Occidental Life Insurance Company of California	175	21,294,189	17,482,326	918,163	2,893,700	660,203	350,288	1,883,209
63	Pacific Mutual Life Insurance Co	58	4,792,522	4,172,589	239,077	380,856	253,043	79,148	48,665
64	Pan American Life Insurance Co	2	61,542	103,677	205	−42,340	3,397		−45,737
65	Paul Revere Life Insurance Co	3	247,091	182,288	15,198	49,605	6,830	4,254	38,521
68	Protective Life Insurance Co	1	4,150	2,866		1,284	210		1,074
69	Provident Life & Accident Co	46	4,687,840	4,185,504	143,449	358,887	71,782	2,717	284,388
70	Prudential Insurance Company of America	64	9,150,338	7,181,546	1,078,927	889,865	188,039	14,526	687,300
72	Republic National Life Insurance Co	1	83,850	102,030		−18,180	1,282		−19,462
74	Security Life & Accident Co	2	22,036	21,776		260	3,304		−3,044
75	Security Mutual Life Insurance Co	29	4,181,148	2,648,007	369,351	1,163,790	434,749	106,322	622,719
78	State Mutual Life Assurance Co	35	621,216	462,250	27,785	131,181	58,506	12,715	59,960

79	Sun Life Assurance Co	7	17,406	3,500	3,176	10,730	2,000			8,730
80	Travelers Insurance Co	50	3,793,343	2,653,227	587,702	552,414	119,213	6,732		424,469
81	Union Casualty & Life Insurance Co	26	4,223,325	3,586,949	38,072	598,304	239,110	14,864		324,350
82	Union Central Life Insurance Co	3	20,555	11,500	4,028	5,027	4,110	539		378
83	Union Labor Life Insurance Co	164	7,633,440	5,981,159	556,550	1,095,731	336,203	84,730		674,798
84	Union Mutual Life Insurance Co	2	4,538	1,000	2,253	1,285	421			864
85	United Benefit Life Insurance Co	15	298,003	209,853		29,140	24,968	812		3,360
86	United Pacific Insurance Co	1	547,522	446,354		101,168	16,421			84,747
87	United States Life Insurance Co	48	2,239,666	1,556,528	252,234	430,904	91,596	17,158		322,150
88	Washington National Insurance Co	37	421,970	255,141	22,785	144,044	36,727	10,200		97,117
89	West Coast Life Insurance Co	5	578,407	350,130	141,852	86,325	5,602	7,754		72,969
90	World Insurance Co	1	12,555	5,825	2,308	4,722	1,162			3,560
91	Zurich General Accident & Liability Insurance Co	8	71,135	53,468	2,985	14,732	5,703			9,029
92	Zurich Life Insurance Co	5	17,964	2,000	3,166	12,798	2,508			10,290

UNIVERSITY OF MICHIGAN LIBRARIES

APPENDIX III—Continued

Transactions of 70 insurance carriers, by carrier: Group policies issued or renewed in 1952—Policies issued as a result of collective bargaining to union funds and other entities where unions appear to have a voice in the selection of the insurance carrier—Continued

Code	Insurance carrier	Percent of billed premiums					
		Incurred claims	Dividends and experience rating refunds	Retentions			
				Total	Commissions	Fees and allowances	Remainder to company
	(1)	(10)	(11)	(12)	(13)	(14)	(15)
	All carriers	79.5	8.0	12.5	3.4	0.9	8.2
01	Aetna Life Insurance Co	76.3	13.4	10.3	2.5		7.8
03	Amalgamated Life Insurance Co	79.2	14.7	6.1			6.1
04	American Casualty Company of Reading	87.1	2.5	10.5	5.2	.4	4.9
07	American Mutual Liability Insurance Co	81.1	5.2	13.7			13.7
08	American Progressive Insurance Company of New York	84.6	7.0	8.4	15.0		−6.6
09	Associated Indemnity Corp	65.2	15.1	19.7	1.3		18.4
11	Bankers Life Co	82.5	4.8	12.7	2.3	1.6	8.8
12	Benefit Association of Railroad Employees	78.0	6.6	15.4	4.6	1.9	8.9
13	Businessmen's Assurance Company of America	88.5	2.5	9.0	9.3		−.3
15	California Western States Life Insurance Co	86.9	9.6	3.5	1.1	.1	2.3
16	Canada Life Insurance Co	169.2	6.6	−75.8	3.5		−79.3
18	Columbian National Life Insurance Co	69.1	6.0	24.9	4.0	1.9	19.0
20	Connecticut General Life Insurance Co	77.1	10.5	12.4	4.3	(1)	8.1
21	Continental Assurance Co	76.7	7.7	15.6	3.9	2.5	9.2
22	Continental Casualty Co	63.2	16.5	20.3	4.5	1.1	14.7
23	Crown Life Insurance Co	62.0	6.5	31.5	10.6		20.9
24	Dominion Life Assurance Co			100.0	9.9		90.1
25	Eastern Casualty Co	52.7	2.2	45.1	13.6	5.2	26.3
26	Eastern Life Insurance Company of New York	35.4		64.6	24.0	6.0	34.6
27	Equitable Life Assurance Society of the United States	83.3	6.1	10.6	2.3		8.3
28	Farm Bureau Mutual Automobile Insurance Co	69.4	13.1	17.5	6.1	0	11.4
29	Federal Life Insurance Co	63.5	16.1	20.4	4.5		15.9
30	Founder's Insurance Co	74.6	8.6	16.8	4.0		12.8
31	General Accident Fire & Life Assurance Corp	79.5	8.4	12.1	3.4		8.7
32	General American Life Insurance Co	70.9	14.5	14.6	3.3		11.3
34	Great West Life Assurance Co	81.5	2.9	15.6	6.7	2.2	6.7
35	Guaranty Union Life Insurance Co	72.4		27.6			27.6
37	Hartford Accident & Indemnity Co	44.6	20.7	34.7	6.9		27.8
38	Home Life Insurance Co	87.6	3.3	9.1	1.9		7.2
40	Inter-Ocean Insurance Co	53.5		46.5	12.3	0	34.2
41	John Hancock Mutual Life Insurance Co	83.9	7.6	8.5	1.9	.2	6.4
42	Liberty Life Insurance Co	72.8	12.6	14.6	4.4		10.2

43	Liberty Mutual Insurance Co	79.3	8.1	12.6			12.6
44	Lincoln National Life Insurance Co	81.2	6.7	12.1	3.8	.1	8.2
45	Lumberman's Mutual Casualty Co	95.7	.6	3.7	2.7		1.0
46	Manhattan Insurance Co	28.9		71.1	20.8	5.0	45.3
47	Massachusetts Mutual Life	91.4	4.3	4.2	5.8		−1.6
49	Metropolitan Life Insurance Co	78.5	9.8	11.7	1.6		10.1
51	Mutual Benefit Health & Accident Association	88.3	.3	11.4	2.5	6.6	2.3
52	Mutual Service Life Insurance Co	27.6		72.4			72.4
53	National Casualty Co	106.5		−6.5	10.0		−16.5
56	New York Life Insurance Co	78.2	11.5	10.3	3.4		6.9
57	North American Accident Insurance Co	49.3		50.7	15.3	2.8	32.6
59	Northwestern Life Insurance Co	51.2		48.8	5.3		43.5
60	Northwestern National Life Insurance Co	70.2	8.9	20.9	6.7	.4	13.8
61	Occidental Life Insurance Company of California	82.2	4.3	13.5	3.1	1.6	8.8
63	Pacific Mutual Life Insurance Co	87.0	5.0	8.0	5.3	1.6	1.1
64	Pan American Life Insurance Co	168.5	.3	−68.8	5.5		−74.3
65	Paul Revere Life Insurance Co	73.7	6.2	20.1	2.8	1.7	15.6
68	Protective Life Insurance Co	69.1		30.9	5.1		25.9
69	Provident Life & Accident Co	89.2	3.1	7.7	1.5	.1	6.1
70	Prudential Insurance Company of America	78.4	11.8	9.8	2.1	.2	7.5
72	Republic National Life Insurance Co	121.7		−21.7	1.5		−23.2
74	Security Life & Accident Co	98.8		1.2	15.0		−13.8
75	Security Mutual Life Insurance Co	63.4	8.8	27.8	10.4	2.5	14.9
78	State Mutual Life Assurance Co	74.4	4.5	21.1	9.4	2.1	9.6
79	Sun Life Assurance Co	20.1	18.2	61.7	11.5		50.2
80	Travelers Insurance Co	69.9	15.5	14.6	3.1	.2	11.2
81	Union Casualty & Life Insurance Co	84.9	.9	14.2	6.1	.4	7.7
82	Union Central Life Insurance Co	56.0	19.6	24.4	20.0	2.6	1.8
83	Union Labor Life Insurance Co	78.4	7.3	14.3	4.4	1.1	8.8
84	Union Mutual Life Insurance Co	22.1	49.6	28.3	9.3		19.0
85	United Benefit Life Insurance Co	87.9		12.1	10.4	.3	1.4
86	United Pacific Insurance Co	81.5		18.5	3.0		15.5
87	United States Life Insurance Co	69.4	11.3	19.3	4.1	.8	14.4
88	Washington National Insurance Co	60.5	5.4	34.1	8.7	2.4	23.0
89	West Coast Life Insurance Co	60.6	24.5	14.9	1.0	1.3	12.6
90	World Insurance Co	44.0	18.4	37.6	9.3		28.3
91	Zurich General Accident & Liability Insurance Co	75.1	4.2	20.7	13.6		7.1
92	Zurich Life Insurance Co	11.1	17.6	71.3	14.0		57.3

[1] Less than 1/10 of 1 percent.

UNIVERSITY OF MICHIGAN LIBRARIES

APPENDIX IV

Transactions of unions with 10 or more policies or with policies involving $100,000 or more in billed premiums—group policies issued or renewed in 1952

Code	Union	Number of policies	Amount of—						
			Billed premium	Incurred claims	Dividends and experience rating refunds	Retentions			
						Total, column 3—(columns 4+5)	Commissions	Fees and allowances	Remainder to company (column 6—7+8)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	Total:								
	All unions	1,596	$127,475,757	$101,324,918	$10,228,468	$15,922,371	$4,326,018	$1,158,368	$10,437,985
	Unions with 10 or more policies or with policies involving $100,000 or more in billed premiums	1,398	124,022,891	98,720,935	10,052,938	15,249,018	4,114,524	1,141,851	9,992,643
	Other [1]	198	3,452,866	2,603,983	175,530	673,353	211,494	16,517	445,342
	American Federation of Labor:								
	All unions	1,070	77,639,130	59,709,114	6,516,583	11,413,433	3,339,559	1,024,231	7,049,643
	Unions with 10 or more policies or with policies involving $100,000 or more in billed premiums	1,000	76,771,218	59,094,420	6,464,833	11,211,965	3,265,450	1,021,905	6,924,610
101	Federal Labor Union	20	224,548	118,564	35,958	70,026	15,911	680	53,435
106	Asbestos Workers	13	302,278	263,234	6,830	32,214	24,457	600	7,157
108	Bakery and Confectionery Workers	42	1,666,172	1,196,237	153,864	316,071	80,291	3,014	232,766
112	Boilermakers-Blacksmiths	2	221,000	188,352	16,972	15,675	8,869		6,806
114	Brick and Clay Workers	6	220,883	162,884	28,233	29,766	9,921		19,845
115	Bricklayers	21	1,114,724	747,015	150,525	217,184	36,636	4,677	175,871
116	Bridge-Iron Workers	19	1,759,933	1,264,637	281,880	213,416	52,614	1,286	159,516
118	Building Service	29	1,922,142	1,331,511	227,599	363,032	68,529	38,196	256,307
119	Carpenters	33	2,421,385	1,718,125	152,487	550,773	82,044	131,353	337,376
126	Distillery Workers	5	1,868,772	1,360,350	15,862	492,560	211,533	35,415	245,612
127	Electrical Workers	27	2,019,323	1,624,108	200,675	194,540	70,861	11,319	112,360
129	Engineers	27	1,052,318	775,948	82,990	193,380	61,406	30,637	101,337
141	Handbag, Luggage, Belt and Novelty Workers	7	416,687	314,270	38,915	63,502	10,641		52,861
143	Hod Carriers	34	2,804,834	1,552,889	712,607	539,338	117,735	29,776	391,827
145	Hotel and Restaurant Employees and Bartenders	73	6,675,755	5,301,376	568,063	806,316	266,634	38,190	501,492
146	Jewelry Workers	17	450,422	299,536	49,533	101,353	36,990	10,844	53,519
147	Lathers	9	239,583	214,416	16,957	8,210	10,884	274	−2,948
148	Laundry Workers	11	1,384,220	808,963	160,809	414,428	122,270	30,183	261,975
153	Marble, Slate and Stone Polishers	3	110,503	73,349	8,371	28,783	7,326		21,457

154	Masters, Mates and Pilots	3	472,697	314,448	102,257	55,992	12,713		43,279
155	Meat Cutters	27	3,047,969	2,303,148	308,930	435,891	97,969	16,526	321,396
158	Metal Polishers	3	147,392	86,498	19,043	41,851	6,943	3,241	31,667
161	Molders and Foundry Workers	9	188,191	170,498		17,693	7,213		10,480
162	Musicians	15	48,686	31,025	6,873	10,788	4,165	365	6,258
164	Painters	41	2,873,438	2,174,816	258,548	440,074	74,147	21,448	344,479
166	Pattern Makers	5	162,087	113,277	4,663	44,147	11,673	3,202	29,272
167	Photoengravers	9	278,901	188,364	34,748	55,789	7,845		47,944
168	Plasterers	12	690,421	489,364	76,404	124,653	23,378	448	100,827
170	Plumbing and Pipe Fitting Industry	48	3,967,918	3,394,587	266,140	307,191	147,397	20,263	139,531
176	Pulp, Sulphite and Paper Mill Workers	10	348,974	264,031	23,664	61,279	30,117	12,506	18,656
184	Retail Clerks	57	2,751,750	2,060,875	224,768	466,107	97,940	33,584	334,583
185	Roofers	9	144,743	92,467	11,130	41,146	14,052		27,094
186	Seafarers	3	172,549	100,661	509	71,379	5,780		65,599
187	Sheet Metal Workers	32	2,497,362	1,874,057	238,887	384,418	100,316	5,572	278,530
188	Shoe Workers	15	68,775	43,745		25,030	11,379	1,340	12,311
192	Stage Employees	16	660,604	614,399	1,098	45,107	18,579		26,528
197	Street, Electrical Railway, and Motor Coach Employees	13	426,570	418,551	593	7,426	25,652	11,205	−29,431
200	Teamsters	237	24,275,221	19,933,146	1,269,541	3,072,534	1,043,923	522,232	1,506,379
204	Typographical Union	4	254,725	199,509	16,583	38,633	11,187		27,446
205	Upholsterers	5	3,653,153	2,417,900	559,244	676,009	118,425		557,584
208	Grain Millers	3	139,890	130,700	258	8,932	3,991		4,941
214	Hosiery Workers	2	610,027	671,785	3,509	−65,267	6,450		−71,717
218	Machinists	24	2,013,603	1,690,795	128,312	194,596	88,664	3,529	102,403
	All other	70	867,912	614,694	51,750	201,468	74,109	2,326	125,033
	Congress of Industrial Organizations:								
	All unions	292	33,708,214	28,160,063	2,497,335	3,050,816	586,586	71,063	2,393,167
	Unions with 10 or more policies or with policies involving $100,000 or more in billed premiums	268	33,407,522	27,920,965	2,494,579	2,991,978	559,099	71,008	2,361,871
302	Automobile, Aircraft & Agricultural Implement Workers	72	5,998,861	5,140,032	218,309	640,430	212,852	34,640	392,938
304	Brewery Workers	9	454,359	359,783	19,638	74,938	20,028	100	54,810
305	Clothing Workers	11	9,452,960	7,472,280	1,350,316	630,364	1,438	51	628,875
312	Furniture Workers [3]	2	1,027,876	852,901	109,052	65,923	12,465		53,458
314	Glass, Ceramic & Silica Sand Workers	4	211,955	165,001	9,877	37,077	6,214		30,836
316	Lithographers	37	1,611,223	1,194,265	199,227	217,731	24,295	468	192,968
319	Marine Engineers	3	665,806	483,076	121,126	61,604	11,497	5,099	45,008
321	Maritime Union	4	1,714,217	1,730,917	7,336	−24,036	19,960		−43,996
327	Packinghouse workers	4	228,529	194,520	292	33,717	2,887	2,717	28,113
332	Retail, Wholesale and Department Store Union	26	747,696	483,125	104,488	160,083	37,246	21,032	101,805
333	Rubber, Cork, Linoleum and Plastic Workers	11	645,711	523,536	6,128	115,947	33,762	6,389	75,796
335	Steelworkers	52	6,544,457	5,882,104	185,273	477,080	99,845	512	376,723
337	Textile workers	18	430,492	298,789	12,746	118,957	28,454		90,503
343	Woodworkers	15	3,673,380	3,140,536	150,081	382,163	48,129		334,034
	All other	24	300,692	239,098	2,756	58,838	27,487	55	31,296

UNIVERSITY OF MICHIGAN LIBRARIES

APPENDIX IV—Continued

Transactions of unions with 10 or more policies or with policies involving $100,000 or more in billed premiums—group policies issued or renewed in 1952—Continued

Code	Union	Number of policies	Amount of—						
			Billed premium	Incurred claims	Dividends and experience rating refunds	Retentions			
						Total, column 3—(columns 4+5)	Commissions	Fees and allowances	Remainder to company (column 6—7+8)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	Independent:								
	All unions	118	$7,528,259	$5,986,988	$705,910	$835,361	$185,200	$20,310	$629,851
	Unions with 10 or more policies or with policies involving $100,000 or more in billed premiums	112	7,448,827	5,922,543	705,803	820,481	179,798	19,061	621,622
455	Mine Workers, District 50	21	385,487	326,276	27,280	31,931	2,130	1,000	28,801
480	Longshoremen	29	1,213,667	926,066	142,606	144,995	27,732	4,254	113,009
481	Marine Cooks	1	361,423	192,200	125,852	43,371	5,421	9,035	28,915
484	Electrical Workers	7	713,062	579,905	55,136	78,021	24,551		53,470
494	Watchmen's Association	3	152,084	178,005		−25,921	4,284		−30,205
495	Mine, Mill & Smelter Workers	9	248,638	233,479	6,819	8,340	16,301	1,990	−9,951
497	Fur & Leather Workers	17	486,615	346,321	63,420	76,874	16,989		59,885
511	Longshoremen	25	3,887,851	3,140,291	284,690	462,870	82,390	2,782	377,698
	All other	6	79,432	64,445	107	14,880	5,402	1,249	8,229
	Single firm unions, independent:								
	All unions	50	7,233,261	6,374,559	429,251	429,451	148,680	38,483	242,288
	Unions with 10 or more policies or policies involving $100,000 or more in billed premiums	18	6,395,324	5,783,007	387,723	224,594	110,177	29,877	84,540
	All other	32	837,937	591,552	41,538	204,847	38,503	8,606	157,738
505	Union unknown	66	1,366,893	1,094,194	79,389	193,310	65,993	4,281	123,036

APPENDIX IV—Continued

Transactions of unions with 10 or more policies or with policies involving $100,000 or more in billed premiums—group policies issued or renewed in 1952—Continued

Code	Union	Percent of billed premiums					
		Incurred claims	Dividends and experience rating refunds	Retentions			
				Total	Commissions	Fees and allowances	Remainder to company
	(1)	(10)	(11)	(12)	(13)	(14)	(15)
	Total:						
	All unions	79.5	8.0	12.5	3.4	0.9	8.2
	Unions with 10 or more policies or with policies involving $100,000 or more in billed premiums	79.6	8.1	12.3	3.3	.9	8.1
	Other [1]	75.4	5.1	19.5	6.1	.5	12.9
	American Federation of Labor:						
	All unions	76.9	8.4	14.7	4.3	1.3	9.1
	Unions with 10 or more policies or with policies involving $100,000 or more in billed premiums	77.0	8.4	14.6	4.3	1.3	9.0
101	Federal Labor Union	52.8	16.0	31.2	7.1	.3	23.8
106	Asbestos Workers	87.1	2.3	10.7	8.1	.2	2.4
108	Bakery and Confectionery Workers	71.8	9.2	19.0	4.8	.2	14.0
112	Boilermakers-Blacksmiths	85.2	7.7	7.1	4.0		3.1
114	Brick and Clay Workers	73.7	12.8	13.5	4.5		9.0
115	Bricklayers	67.0	13.5	19.5	3.3	.4	15.8
116	Bridge-Iron Workers	71.9	16.0	12.1	3.0	.1	9.1
118	Building Service	69.3	11.8	18.9	3.6	2.0	13.3
119	Carpenters	71.0	6.3	22.7	3.4	5.4	13.9
126	Distillery Workers	72.9	.8	26.3	11.3	1.9	13.1
127	Electrical Workers	80.4	9.9	9.7	3.5	.6	5.6
129	Engineers	73.8	7.9	18.3	5.8	2.9	9.6
141	Handbag, Luggage, Belt and Novelty Workers	75.5	9.3	15.2	2.5		12.7
143	Hod Carriers	55.3	25.4	19.3	4.2	1.1	14.0
145	Hotel and Restaurant Employees and Bartenders	79.4	8.5	12.1	4.0	.6	7.5
146	Jewelry Workers	66.5	11.0	22.5	8.2	2.4	11.9
147	Lathers	89.5	7.1	3.4	4.5	.1	−1.2
148	Laundry Workers	58.5	11.6	29.9	8.8	2.2	18.9
153	Marble, Slate and Stone Polishers	66.4	7.6	26.0	6.6		19.4
154	Masters, Mates and Pilots	66.5	21.6	11.9	2.7		9.2
155	Meat Cutters	75.7	10.1	14.2	3.2	.5	10.5

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APPENDIX IV—Continued

Transactions of unions with 10 or more policies or with policies involving $100,000 or more in billed premiums—group policies issued or renewed in 1952—Continued

Code	Union	Percent of billed premiums					
		Incurred claims	Dividends and experience rating refunds	Retentions			
				Total	Commissions	Fees and allowances	Remainder to company
	(1)	(10)	(11)	(12)	(13)	(14)	(15)
158	Metal Polishers	68.7	12.9	28.4	4.7	2.2	21.5
161	Molders and Foundry Workers	90.6		9.4	3.8		5.6
162	Musicians	63.7	14.1	22.2	8.6	.7	12.9
164	Painters	75.7	9.0	15.3	2.6	.7	12.0
166	Pattern Makers	69.8	2.9	27.3	7.2	2.0	18.1
167	Photoengravers	67.5	12.5	20.0	2.8		17.2
168	Plasterers	70.8	11.1	18.1	3.4	.1	14.6
170	Plumbing and Pipe Fitting Industry	85.6	6.7	7.7	3.7	.5	3.5
176	Pulp, Sulphite and Paper Mill Workers	75.7	6.8	17.5	8.6	3.6	5.3
184	Retail Clerks	74.8	8.2	17.0	3.6	1.2	12.2
185	Roofers	63.9	7.7	28.4	9.7		18.7
186	Seafarers	58.3	.3	41.4	3.4		38.0
187	Sheet Metal Workers	75.0	9.6	15.4	4.0	.2	11.2
188	Shoe Workers	63.7		36.3	16.5	1.9	17.9
192	Stage Employees	93.0	.2	6.8	2.8		4.0
197	Street, Electric Railway & Motor Coach Employees	98.2	.1	1.7	6.0	2.6	−6.9
200	Teamsters	82.1	5.2	12.7	4.3	2.2	6.2
204	Typographical Union	78.3	6.5	15.2	4.4		10.8
205	Upholsterers	66.2	15.3	18.5	3.2		15.3
208	Grain Millers	93.4	.2	6.4	2.9		3.5
214	Hosiery Workers	110.1	.6	−10.7	1.1		−11.8
218	Machinists	83.9	6.4	9.7	4.4	.2	5.1
	All other	70.8	6.0	23.2	8.5	.3	14.4
	Congress of Industrial Organizations: All Unions	83.6	7.4	9.0	1.7	0.2	7.1
	Unions with 10 or more policies or with policies involving $100,000 or more in billed premiums	83.5	7.5	9.0	1.7	0.2	7.1

302	Automobile, Aircraft & Agricultural Implement Workers	85.7	3.6	10.7	3.5	0.6	6.6
304	Brewery Workers	79.2	4.3	16.5	4.4	(2)	12.1
305	Clothing Workers	79.0	14.3	6.7	(2)	(2)	6.7
312	Furniture Workers [1]	83.0	10.6	6.4	1.2		5.2
314	Glass, Ceramic & Silica Sand Workers	77.8	4.7	17.5	2.9		14.5
316	Lithographers	74.1	12.4	13.5	1.5	(2)	12.0
319	Marine Engineers	72.5	18.2	9.3	1.7	0.8	6.8
321	Maritime Union	101.0	0.4	−1.4	1.2		−2.6
327	Packinghouse workers	85.1	.1	14.8	1.3	1.2	12.3
332	Retail, Wholesale & Department Store Union	64.6	14.0	21.4	5.0	2.8	13.6
333	Rubber, Cork, Linoleum and Plastic Workers	81.2	.9	17.9	5.2	1.0	11.7
335	Steelworkers	89.9	2.8	7.3	1.5	(2)	5.8
337	Textile workers	69.4	3.0	27.6	6.6		21.0
343	Woodworkers	85.5	4.1	10.4	1.3		9.1
	All other	79.5	1.0	19.5	9.1	(2)	10.4
	Independent:						
	All unions	79.4	9.4	11.2	2.5	.3	8.4
	Unions with 10 or more policies or with policies involving $100,000 or more in billed premiums	79.5	9.5	11.0	2.4	.3	8.3
455	Mine Workers, District 50	84.6	7.1	8.3	.5	.3	7.5
480	Longshoremen	76.2	11.8	12.0	2.3	.4	9.3
481	Marine Cooks	53.2	34.8	12.0	1.5	2.5	8.0
484	Electrical Workers	81.3	7.7	10.9	3.4		7.5
494	Watchmen's Association	117.1		−17.1	2.8		−19.9
495	Mine, Mill & Smelter Workers	93.9	2.7	3.4	6.6	.8	−4.0
497	Fur & Leather Workers	71.2	13.0	15.8	3.5		12.3
511	Longshoremen	80.8	7.3	11.9	2.1	.1	9.7
	All other	81.1	.1	18.8	6.8	1.6	10.4
	Single firm unions, independent:						
	All unions	88.2	5.9	5.9	2.1	.5	3.3
	Unions with 10 or more policies or policies involving $100,000 or more in billed premiums	90.4	6.1	3.5	1.7	.5	1.3
	All other	70.6	5.0	24.4	4.6	1.0	18.8
505	Union unknown	80.1	5.8	14.1	4.8	.3	9.0

[1] Includes 66 policies involving unions whose identities are unknown. (See Union unknown.)

[2] Less than 1/10 of 1 percent.

[3] Men's clothing industry: Low commission figure reflects zero commissions paid to insurance company organized by this union.

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X. DISTRIBUTION OF GROUP INSURANCE AND INSURANCE EXPERIENCE ACCORDING TO SIZE OF CASE

The commissions, fees, and insurance company retentions in specific cases, revealed by the subcommittee's investigations, require a set of standards against which they can be measured if any judgment is to be made concerning their appropriateness. For that reason, an effort was made to obtain information showing the relative frequency of group-insurance cases according to size of case, the relative importance of each size group with respect to total number of employees covered and premium written, and the insurance experience and net cost of insurance to the policyholder, by size of case.

The cooperation of the two associations of life-insurance companies, the American Life Convention and the Life Insurance Association of America, was enlisted in obtaining these data. These associations acting as a unit agreed to obtain the desired data from a number of the larger life-insurance companies and to combine the data and experience of the several companies into a single set of data.

Ultimately, information was obtained from 7 large companies which, together, in 1954, wrote over 68 percent of the group life and group accident and health insurance underwritten by all life-insurance companies.

The combined data from these seven companies are set forth below in tables 26A–28. The tables are prefixed by a statement written by the two associations which sets forth the scope and limitations of the data provided.

The data provide a picture of the group-insurance business of the larger life-insurance companies in the country. In considering these data, it should be noted that these seven write a relatively higher proportion of large cases than do other insurance companies. In other words, if data for all insurance companies were available, they would show a relatively greater proportion of small- and medium-sized cases to the total than do the figures here set forth.

The data showed that a high proportion of all policies are written, as would be expected, for small and moderate size concerns. Thus, of 16,724 cases written by the 4 companies which were able to provide this information, 43 percent covered less than 49 lives and another 21 percent 50 to 99 lives. An additional 26 percent of cases covered 100 to 500 employees. Only 2.6 percent of all cases covered more than 2,500 employees. However, the numerous cases covering less than 100 employees represented only 5.6 percent of all employees and involved less than 5 percent of total premiums, whereas the 41 cases covering more than 25,000 employees included 35 percent of all employees insured and involved over one-third of the total premium volume for all cases.

Insurance experience for the first year of a policy and for subsequent years must be differentiated because of the higher commissions paid on new business as compared with renewal business. Table 2 shows

the insurance experience on 1,919 first-year cases with policy years ending in 1954. It shows that for all of these policies together incurred claims amounted to 73 percent of billed premiums, dividends or retrospective rate credits to 11.6 percent, and retentions, defined as the excess of billed premiums over incurred claims and dividends or retrospective rate credits, amounted to 15.4 percent of total billed premiums. Retention varies strikingly with the size of the case. For all cases involving less than 49 employees the first-year retention was 34.8 percent of billed premiums; for all cases involving 50 to 99 employees, 33.1 percent. The insurance retention gradually decreases with increasing size of case and was 5.6 percent for cases involving over 25,000 lives.

Insurance retentions are lower on renewal business. As table 3 shows, on all policy years other than the first, ending in 1954, incurred claims were 75.3 percent of billed premiums; dividends or retrospective rate credits, 14.8 percent; and retentions, 9.9 percent. On cases involving less than 49 employees, the insurance retention was 32.7 percent and on those involving 50 to 99 employees, 27.1 percent. Here, too, there is a sharp decrease in retention percentages as the size of the case increases. For cases covering 10,000 to 25,000 employees, the average insurance retention was 7.7 percent; for cases involving 25,000 to 50,000 employees, 6.8 percent; for cases involving 50,000 to 100,000 employees, 5.5 percent, and on the seven cases each covering more than 100,000 employees, the insurance retention was 3.6 percent.

The relatively high net cost of insurance for small employers would appear to point to a problem of some importance.

The material received from the insurance companies through the two associations follows:

GROUP INSURANCE DATA COLLECTED FOR THE SUBCOMMITTEE ON EMPLOYEE WELFARE AND PENSION FUNDS, UNITED STATES SENATE COMMITTEE ON LABOR AND PUBLIC WELFARE

The attached tables were prepared at the request of the staff of the Subcommittee on Employee Welfare and Pension Funds. Seven life insurance companies were asked to participate in the study. Because of the time limitation placed on completion of the work, only four companies were able to compile the data in the exact detail requested. The other three companies, however, submitted a substantial amount of data in more readily available forms, most of which could be used. The seven contributing companies were as follows:

Aetna Life Insurance Co.
Connecticut General Life Insurance Co.
The Equitable Life Assurance Society of the United States
Metropolitan Life Insurance Co.
New York Life Insurance Co.
The Prudential Insurance Company of America
The Travelers Insurance Co.

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These companies, in 1954, wrote over 68 percent of the group life and group accident and health insurance underwritten by life-insurance companies.

Scope.—Companies were asked to include their total group-insurance business, omitting only the Federal employee group life insurance case, group creditor coverages, group permanent or paid-up cases, and cases involving State cash sickness coverage only. Among the 4 companies which submitted substantially all of the desired information, 2 companies were not able to furnish data on all of their under-25-life cases in the form requested, but these cases covered only about 8 percent of the total covered in the smallest size category. Another company was unable to exclude a small amount of creditor and State cash sickness coverage. The major difficulty for the three companies able to submit partial data only within the allotted time was in the size groupings requested. One company was able to provide data for the under-500-life cases in combined form only and another not at all. The third could give data for the over-5,000-life group in combined form only and nothing for table 26 or for the policies and lives columns of tables 27 and 28.

Table 26.—This table is presented in two forms. Table 26–A includes the data of all six companies able to furnish at least partial data for this table. It therefore excludes size categories under 500 lives and groups together size categories over 5,000 lives. Table 26–B presents data for four companies in the detailed form requested. Certain data in the two largest size categories have been combined where the actual experience of individual cases would otherwise have been presented.

Table 27.—This table presents the first-policy-year experience, by size of case, for cases on which the insurance company had no previous coverages. The final column, "Excess of billed premiums over incurred claims and dividends or retrospective rate credits," represents that amount required to cover such items as expenses, taxes, commissions, contingency reserve increases, and contributions to surplus. The percentage necessarily decreases with size of case as the economies of larger operations come into play. Dividends or retrospective rate credits are, in effect, the balancing item, the amounts which are credited to the policyholder. These amounts as produced by the companies' experience-rating formulas are, in the absence of severe claim fluctuation, smaller in the early policy years and for the smaller cases. In this connection, it is interesting to note that the experience-rating formulas of every reporting company produced some dividends or rate credits for the first policy year of the smallest size category.

Table 28.—This table presents the experience for other than pure first-year business. First-year costs incurred through the addition of new lines of coverage to a previously

existing case or an increase in benefit levels on an existing case are included in the data. For pure renewal cases, involving no recent addition or benefit increase activity, the expense and commissions would generally be somewhat smaller and the dividends or retrospective rate credits somewhat larger. The same comments as to the incidence of expenses, etc., by size case as given in the comments on table 27 apply here.

It is important to bear in mind in analyzing tables 27 and 28 that the average percentages cannot be considered applicable to any one case. Claim ratios will vary considerably from case to case, especially in the small-case area. Expenses will vary according to a rather large number of factors such as claim ratio, size, the length of time the coverage has been in force, the type of benefits provided, the average size of the benefits, and such other factors as the degree to which the policyholder handles the administration of the plan and the claim settlements.

TABLE 26–A.—*Size distribution of total group insurance business [1] of 6 life-insurance companies (all policy years ending in 1954)*

Number of employees covered by case	Number of policy-holders	Number of covered employees	Billed premiums	Incurred claims
1. Cases involving life insurance only (with or without accidental death and disability):				
500 to 999	376	256, 905	$9, 063, 738	$5, 250, 725
1,000 to 2,499	243	371, 066	15, 660, 572	9, 673, 673
2,500 to 4,999	92	321, 892	13, 031, 651	8, 316, 227
5,000 and over	85	1, 338, 864	55, 658, 658	38, 559, 930
Total	796	2, 288, 727	93, 414, 619	61, 800, 555
2. Cases involving accident and health coverages only:				
500 to 999	213	147, 142	7, 853, 724	6, 185, 749
1,000 to 2,499	152	235, 474	13, 855, 798	10, 995, 459
2,500 to 4,999	60	210, 617	11, 306, 345	9, 161, 608
5,000 and over	48	768, 877	50, 556, 529	42, 426, 946
Total	473	1, 362, 110	83, 572, 396	68, 769, 762
3. Cases involving both life insurance and accident and health coverages:				
500 to 999	988	691, 704	59, 118, 288	43, 561, 545
1,000 to 2,499	679	1, 096, 913	97, 875, 244	72, 307, 930
2,500 to 4,999	298	1, 040, 405	91, 202, 636	68, 427, 391
5,000 and over	250	4, 924, 643	457, 600, 514	369, 487, 411
Total	2, 215	7, 723, 665	705, 796, 682	553, 784, 277
4. Total, all cases:				
500 to 999	1, 577	1, 095, 751	76, 035, 750	54, 998, 019
1,000 to 2,499	1, 074	1, 673 453	127, 391, 614	92, 977, 062
2,500 to 4,999	450	1, 572 914	115, 540, 632	85, 905, 226
5,000 and over	383	7, 032, 384	563, 815, 701	450, 474, 287
Total	3, 484	11, 374, 502	882, 783, 697	684, 354, 594

[1] Excluding the Federal employee group life-insurance case, group creditor coverages, group permanent or paid-up cases, cases involving State cash sickness coverage only, and all cases involving under 500 lives. (See comments.)

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TABLE 26-B.—*Size distribution of total group insurance business[1] of 4 life-insurance companies (all policy years ending in 1954)*

Number of employees covered by case	Number of policy-holders	Number of covered employees	Billed premiums	Incurred claims
1. Cases involving life insurance only (with or without accidental death and disability):				
0 to 49	2,280	66,430	$2,287,576	$1,240,959
50 to 99	1,144	81,259	2,688,592	1,448,672
100 to 249	906	141,156	4,845,792	2,615,351
250 to 499	402	141,904	5,844,361	3,506,774
500 to 999	210	144,063	5,675,991	3,068,021
1,000 to 2,499	132	197,380	9,482,192	5,425,020
2,500 to 4,999	51	179,896	8,019,061	4,930,188
5,000 to 9,999	29	197,498	7,953,270	5,214,341
10,000 to 24,999	15	237,360	9,258,472	6,385,002
25,000 to 49,999	8	271,253	12,296,040	8,386,291
50,000 to 99,999	1	69,140	8,234,099	5,809,066
100,000 and over	1	111,755		
Total	5,179	1,839,094	76,585,446	48,029,685
2. Cases involving accident and health coverages only:				
0 to 49	1,418	34,452	2,032,787	1,462,978
50 to 99	402	27,807	1,674,618	1,185,695
100 to 249	379	58,546	3,125,366	2,201,555
250 to 499	148	51,635	2,926,988	2,208,571
500 to 999	103	71,337	3,409,190	2,545,853
1,000 to 2,499	70	108,394	7,119,045	5,521,467
2,500 to 4,999	22	81,650	4,559,515	3,683,580
5,000 to 9,999	15	114,725	6,395,101	5,036,896
10,000 to 24,999	9	123,916	7,375,093	5,808,769
25,000 to 49,999	2	90,034	2,751,525	2,328,185
50,000 to 99,999	1	53,557	12,814,438	10,856,558
100,000 and over	1	117,632		
Total	2,570	933,685	54,183,665	42,840,104
3. Cases involving both life insurance and accident and health coverages:				
0 to 49	3,418	104,185	9,487,030	6,135,535
50 to 99	2,015	143,760	12,236,904	7,649,222
100 to 249	1,700	266,347	22,719,863	14,419,677
250 to 499	812	286,617	24,716,222	16,807,920
500 to 999	440	309,022	27,494,057	19,283,787
1,000 to 2,499	308	488,672	46,942,792	33,969,413
2,500 to 4,999	140	484,093	44,255,940	32,884,732
5,000 to 9,999	74	511,581	45,103,546	33,168,499
10,000 to 24,999	41	636,105	60,162,236	48,168,862
25,000 to 49,999	18	669,101	93,477,709	77,059,695
50,000 to 99,999	4	242,337	112,195,621	96,501,906
100,000 and over	5	1,224,225		
Total	8,975	5,366,045	498,791,920	386,049,248
4. Total, all cases:				
0 to 49	7,116	205,067	13,807,393	8,839,472
50 to 99	3,561	252,826	16,600,114	10,283,589
100 to 249	2,985	466,049	30,691,021	19,236,583
250 to 499	1,362	480,156	33,487,571	22,523,265
500 to 999	753	524,422	36,579,247	24,897,661
1,000 to 2,499	510	794,446	63,544,029	44,915,900
2,500 to 4,999	213	745,639	56,834,516	41,498,500
5,000 to 9,999	118	823,804	59,451,917	43,419,736
10,000 to 24,999	65	997,381	76,795,791	60,362,633
25,000 to 49,999	28	1,030,388	108,525,274	87,774,171
50,000 to 99,999	6	365,034	133,244,158	113,167,527
100,000 and over	7	1,453,612		
Total	16,724	8,138,824	629,561,031	476,919,037

[1] Excluding the Federal employee group life-insurance case, group creditor coverages, group permanent or paid-up cases, and cases involving State cash sickness coverage.

TABLE 27.—*Group insurance experience for first policy years ending in 1954, all lines combined* [1]

Number of employees covered by case	4 life-insurance companies			As percent of billed premiums, 7 life-insurance companies [2]			
	Number of policyholders	Number of covered employees	Billed premiums (thousands)	Billed premiums	Incurred claims	Dividends or retrospective rate credits	Excess of billed premiums over incurred claims and dividends or retrospective rate credits
				Percent	*Percent*	*Percent*	*Percent*
0 to 49	1,154	33,815	$2,494	100.0	65.0	0.2	34.8
50 to 99	351	24,514	1,724	100.0	65.1	1.8	33.1
100 to 249	253	38,877	2,763	100.0	67.2	5.1	27.7
250 to 499	79	27,945	2,167	100.0	72.7	6.3	21.0
500 to 999	41	28,377	1,734	100.0	71.8	10.7	17.5
1,000 to 2,499	24	35,558	2,590	100.0	73.7	12.9	13.4
2,500 to 4,999	10	32,343	2,745	100.0	71.3	17.8	10.9
5,000 to 9,999	2	14,619	1,529	100.0	79.0	7.3	13.7
10,000 to 24,999	3	48,804	2,674	100.0	68.7	24.5	6.8
25,000 to 49,999	1	99,832	9,686	100.0	81.9	12.5	5.6
50,000 to 99,999	1						
100,000 and over							
Total	1,919	384,714	30,116	100.0	73.0	11.6	15.4

[1] Excluding the Federal employee group life-insurance case, group creditor coverages, group permanent or paid-up cases, and cases involving State cash sickness coverage only.
[2] Derived from data of 5 companies submitting figures on 4 smallest size categories, 7 companies for next 3 size categories, and 6 companies for cases of 5,000 lives or over.

TABLE 28.—*Group insurance experience for all policy years, other than first, ending in 1954, all lines combined* [1]

Number of employees covered by case	4 life-insurance companies			As percent of billed premiums, 7 life-insurance companies [2]			
	Number of policyholders	Number of covered employees	Billed premiums (thousands)	Billed premiums	Incurred claims	Dividends or retrospective rate credits	Excess of billed premiums over incurred claims and dividends or retrospective rate credits
				Percent	*Percent*	*Percent*	*Percent*
0 to 49	5,962	171,252	$11,314	100.0	62.5	4.8	32.7
50 to 99	3,210	228,312	14,876	100.0	61.4	11.5	27.1
100 to 249	2,732	427,172	27,928	100.0	62.4	16.4	21.2
250 to 499	1,283	452,211	31,321	100.0	66.4	18.5	15.1
500 to 999	712	496,045	34,845	100.0	70.9	15.2	13.9
1,000 to 2,499	486	758,888	60,954	100.0	72.6	16.5	10.9
2,500 to 4,999	203	713,296	54,089	100.0	73.3	17.8	8.9
5,000 to 9,999	116	809,185	57,913	100.0	74.8	16.5	8.7
10,000 to 24,999	62	948,547	74,122	100.0	78.4	13.9	7.7
25,000 to 49,999	27	984,113	107,096	100.0	80.6	12.6	6.8
50,000 to 99,999	5	311,477	28,272	100.0	80.6	13.9	5.5
100,000 and over	7	1,453,612	96,715	100.0	86.1	10.3	3.6
Total	14,805	7,754,110	599,445	100.0	75.3	14.8	9.9

[1] Excluding the Federal employee group life-insurance case, group creditor coverages, group permanent or paid-up cases, and cases involving State cash sickness coverage only.
[2] Derived from data of 5 companies submitting figures on 4 smallest size categories, 7 companies for next 3 size categories, and 6 companies for cases of 5,000 lives or over.

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XI. INTERLOCKING DIRECTORATES AND FINANCIAL TRANSACTIONS BETWEEN LARGE POLICYHOLDERS AND COMMERCIAL CARRIERS

The subcommittee staff, in the course of its studies received from certain labor union representatives allegations to the effect that group insurance is sometimes placed with, retained by, or transferred to an insurance company on the basis of considerations other than low net cost of the insurance. Among the considerations cited were loans, securities purchased or other financial assistance by the carrier to the insured, and interlocking directorates between the purchasers of the insurance and the carrier.

While the staff had no views as to whether or not such situations, if existing, had any bearing on the placement of group insurance, it felt compelled to make an effort to determine the incidence of their conditions and their significance, if any.

Accordingly, the staff wrote a letter to the 10 insurance companies believed to write the largest volume of group insurance, citing the above allegations and asking for the following information:

1. A list of all loans, securites, or other financial interests exceeding $500,000 held by your company involving companies, other than railroads or public utilities, which have purchased group insurance from you in a yearly premium amount exceeding $150,000. In this regard we desire the dates of such loans, securities purchased or other financial transactions, effected since January 1, 1949, together with the amount thereof. We also desire the date the group insurance was installed since that date, the annual premiums and the dates and amounts of any substantial (25 percent or more) increases therein. In whatever manner is deemed most practical, we further desire some indication of the volume of such transactions since the date specified with companies which have not placed group insurance with you.

2. A list of any officers and directors of your company who are officers or directors of companies which have placed group insurance with you since January 1, 1949, in a yearly premium amount exceeding $150,000, together with the dates of the appointment of such officers or directors of your company; the dates of the placement of such insurance as well as the amount of yearly premium; and the dates and amounts of any substantial (25 percent or more) increases therein.

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The companies from which this information was requested and the percent of the total United States group life and group accident and health business that each writes are as follows:

	Percentage of total United States group business written	
	Life	Accident and health
1. Aetna	13.2	13.6
2. Connecticut General Life	3.7	4.5
3. Continental Casualty	.0	2.4
4. Equitable Life	15.7	8.8
5. John Hancock	5.1	4.2
6. Metropolitan	23.7	15.2
7. Occidental Life	(1)	3.3
8. Provident Life & Accident	(1)	2.7
9. Prudential	11.5	5.7
10. Travelers	9.9	10.5

[1] Not available.

These 10 companies in the aggregate wrote in 1952 approximately 81 percent of the total of all group life insurance underwritten in the United States, and approximately 70 percent of all group accident and health insurance written.

Replies were received from all 10 of the carriers. Two companies reported that they had no loans, securities, or other financial interests exceeding $500,000 with companies, other than railroads and public utilities, which have purchased group insurance since January 1, 1949, with a yearly premium exceeding $150,000. The reports for these same two carriers disclose that no officer or director of the carriers was an officer or director of any company which has purchased group insurance since January 1, 1949, with a yearly premium in excess of $150,000.

One of the companies reported that there were no loans, securities or other financial interests meeting the transaction specifications, however, on the second point of inquiry, the carrier reported that it had two directors who are directors of companies which have since January 1, 1949, increased their group insurance with the carrier in a yearly premium amount exceeding $150,000, although the carrier had group coverages on the employees of these companies long before 1949.

Of the remaining seven companies, there were approximately $2,160 million in securities or other financial interests meeting the transaction specifications in 76 companies. Over the same period of time, the same companies had a total of over $11,060 million in major loans in investments, i. e., of over $500,000 to companies other than railroads or public utilities. In other words, the financial transactions of the specified type made with companies for which group insurance policies with premiums of over $150,000 annually were written amounted to about 20 percent of the total of all such transactions of similar size.

All told, there were 37 individuals who were directors of both the insurance company and a policyholder and 38 policyholders where there was an individual who served on both the board of the policyholder and the board of the insurance company. This analysis, again,

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included only those companies whose group policies (1) have been written since 1949 and (2) have an annual premium volume exceeding $150,000.

The data obtained from the carriers showed instances in which there were financial transactions with companies that took out group insurance but indicated nothing as to whether there was any causal relationship between the two. In this connection, it must be borne in mind that since most of these companies were writing a considerable proportion of all group business and at the same time were large purchasers of bonds of all descriptions and were making sizable loans to many companies, it is only to be expected that a certain proportion of the companies whose sureties were purchased or to which direct loans were made would also be purchasers of group insurance.

The majority of cases reported by the carriers can be illustrated by the following: Company A has been a policyholder with carrier Z since 1926, and the annual premium on its insurance has been $4.5 million. In 1949, carrier Z made a $90 million loan to Company A. It seems obvious in this case that there was no relationship between the two transactions.

On the other hand, there were a number of cases in which a proximity of dates between the financial transaction and the taking out of group insurance suggests a possibility of some connection between the two. The following are examples:

In 1949 and 1950, carrier A loaned Company X $15 million. Early in 1950, a director of carrier A was appointed a director of Company X. On June 20, 1951, Company X bought a group insurance policy from carrier A. Current premiums average $2.5 million.

Company Y borrowed $5 million in 3 percent debentures on September 28, 1950, from carrier B. In 1954, another loan of $3 million was extended. Effective May 1, 1955, Company Y bought a group insurance policy with annual premiums of $208,246.

On May 1, 1951, Carrier C extended $47.5 million in 3½ percent notes to Company Z. On October 1, 1953, Company Z took out group insurance with Carrier C with annual premiums of $8.3 million.

Time and other limitations did not permit detailed field investigations to determine whether, in such instances, there had been any connection between the two transactions. The staff study on this point must therefore be considered inconclusive.

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XII. ANALYSIS OF RETURNS FROM 65 BANKS AS TO PENSION PLANS FOR WHICH THEY ARE CORPORATE TRUSTEE

In hearings before the subcommittee in July 1955, Mr. C. C. Balderston, vice chairman of the Board of Governors of the Federal Reserve System, stated that 65 banks in the country held pension or other trusts, including personal trusts, in aggregate amounts in excess of $100 million each. Thirty-eight of these banks were State bank members of the Federal Reserve System and held pension and other employee benefit funds in 2,800 accounts with aggregate assets of almost $6 billion. Twenty of the banks were national banks acting as trustees for 2,069 pension and employee benefit trusts with assets of $2,040 million. The list of 65 banks cited by Mr. Balderston included seven State chartered nonmember banks which were trustees for 400 pension and other employee trust accounts with $216 million in assets.

These 65 banks had a total of 5,269 pension and other employee trust accounts with $8,256 million in assets. All except a very small proportion of these employee trust assets are those of pension plans. The great majority of the assets of all pension and employee benefit trusts administered by banks are in the 65 banks referred to above.

In November 1955, the subcommittee staff addressed a letter to each of these 65 banks requesting essentially the following information:

A. A list of all pension and profit-sharing plans with pension features for which the bank is corporate trustee, this list to show separately (1) employer-administered pension plans; (2) pension plans jointly administered by representatives of the employer or the employer and a union, and (3) profit sharing plans with pension features.

B. (1) A list of pension plans the trust agreement of which permits the purchase of securities, obligations, leasebacks, or other property of the employing company or its subsidiaries or affiliates; (2) a designation of those plans in which the bank had sole discretion with respect to investments; (3) a designation of those plans the trust fund of which contained any investment in assets, obligations, securities, and so forth, of the employing company, and an itemization of these holdings and the percentage of such holdings to the total assets of the trust.

C. A list of any common or voting stocks, any portion of which is held in a pension trust and wherein the bank holds in a fiduciary or other voting capacity, including holds in personal trusts, an aggregate of such stock amounting to 5 percent or more of the issue outstanding.

D. The requirements, if any, of the bank relating to actuarial soundness of the plans for which it serves as trustee.

Replies were received from 64 banks. All told, the banks were acting as trustees for a total of 5,053 plans, of which 3,515 were pension plans and 1,538 were profit-sharing plans with retirement features. Of the 3,515 pension plans, 3,389 were employer administered and 126 were jointly (employer-union) administered or wholly union administered plans.

Most of the trusts were administered by banks in six States: California (440), Illinois (517), Massachusetts (222), New York (1,681), Ohio (317), and Pennsylvania (610). Banks in other States administered 1,266 plans.

Sixty-four percent of all plans were administered by 19 banks, each of which administered more than 100 pension trusts.

Specific prohibitions in the trust instruments as to investment in employers' assets or obligations were found in 650 funds; 967 trusts specifically permitted such investments; in 324 insured plans, there were no funds to invest; in the remaining 1,574 plans, the trust instrument was silent on this point.

There was a minimum of 914 plans in which the bank had sole discretion as to the investment of the funds. This figure may, however, be an understatement. It appears from the material that there are many cases in which the bank has virtually no investment authority whatsoever, where all investments are decided upon by the employer, or a committee representing him, and in effect the bank merely serves as a custodian of the securities or assets held.

Approximately 6 percent of the total of 3,191 noninsured pension plans (195) held employers' assets or obligations in the trust fund. The distribution of these plans, according to the percentage of the total trust invested in the employers' assets, is as follows:

Percentage of employers' assets to total assets of trust fund:	*Number of pension plans*
0.0 to 2.9	44
3.0 to 9.9	86
10.0 to 24.9	34
25.0 to 49.9	17
50.0 to 74.9	9
75.0 to 100.0	5

In 65 plans, assets or obligations of the employer amounted to more than 10 percent of the total trust assets. Appendix I lists these plans.[1]

One thousand five hundred thirty-eight profit-sharing plans with pension features were reported by the banks. Of these, the trust agreements in 431 cases specifically permitted investment in the employers' assets or obligations and in 140 cases specifically prohibited such investments. The trust agreements of the remaining 967 plans were silent on this point.

In at least 362 plans of this character the bank had sole discretion as to investment.

Of the 1,538 profit-sharing plans with pension features, 195 plans reported an investment in the assets of obligations of the employer.

[1] See p. 362, infra.

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The distribution of these 195 profit-sharing funds in accordance with the proportion of the trust assets which were invested in the employers' assets or obligations is as follows:

Percentage of employers' assets to total assets of trust fund:	*Number of pension plans*
0.0 to 2.9	31
3.0 to 9.9	52
10.0 to 24.9	34
25.0 to 49.9	38
50.0 to 74.9	15
75.0 to 100.0	25

In 112 of these 195 plans more than 10 percent of the trust fund was invested in the employers' obligations or securities (see appendix II).

There were 2 banks which held in a pension or profit-sharing trust a common stock or other security with voting rights which added to other holdings of the issue by the bank represented in excess of 5 percent of the issue in question. All together, these banks held exactly 100 securities of this description. In many cases, the security in question represents the ownership of a particular piece of real estate. In many instances, the corporations involved are quite small. There are, nevertheless, a number of instances in which a bank holds a sizable percentage of the common stock of a large corporation and where a question as to possible bank control of the corporation might arise.

The replies of the banks indicated that to all intents and purposes the banks have no responsibilities with respect to the actuarial soundness of the plans for which they are trustees and that they have established no requirements along these lines. A number of banks indicated that they will not accept the trusteeship for a plan unless they know that the plan has an actuary, but there is no indication that they receive or request a copy of the annual evaluation report of the actuary. In general, it is apparent that the banks simply do not concern themselves with this side of the operation of pension plans.

Appendix I

Pension trusts in which more than 10 percent of the trust is invested in securities, leasebacks or other obligations of the employing company or affiliates

Employer company and description of securities held	*Percent of trust*
Company A—common stock	26.0
Company B—common stock	25.8
Company C—preferred stock of affiliate	13.9
Company D—3 percent demand note	10.1
Company E—common stock	50.6
Company F—6 percent notes	44.9
Company G—common stock; 4 percent notes and capital stock of holding corporation	72.7
Company H—leaseback	18.5
Company I—6 percent promissory notes	79.6
Company J—common stock, cumulative convertible preferred stock	11.1
Company K—capital stock of affiliate	100.0
Company L—4 percent debentures	34.1
Company M—stock of subsidiary	16.5
Company N—4½ percent debentures	62.2
Company O—common and cumulative preferred stock	18.1
Company P—commingled investment fund	39.3
Company Q—cumulative preferred stock	10.2
Company R—common and cumulative preferred stock	14.7
Company S—note	29.0
Company T—promissory note	70.0
Company U—promissory note	42.0
Company V—promissory note	62.0
Company W—common and cumulative preferred stock	12.6
Company X—common stock	14.3
Company Y—cumulative convertible preferred stock	17.0
Company Z—leaseback	15.3
Company AA—common stock and leaseback	18.8
Company BB—preferred stock of affiliate	47.0
Company CC—common stock	52.0
Company DD—real estate lease	78.2
Company EE—first and refunding mortgage bonds	100.0
Company FF—leases on equipment	37.8
Company GG—2 percent promissory note	12.0
Company HH—bonds and preferred stock	11.7
Company II—common stock	20.7
Company JJ—common stock	10.8
Company KK—oil production payment	25.2
Company LL—convertible 4½ percent debentures and preferred stock	14.4
Company MM—common and preferred stock, 3 percent debentures	16.9
Company NN—class A cumulative preferred stock	32.9
Company OO—common and preferred stock	16.2
Company PP—common and preferred stock; equipment leased	64.9
Company QQ—cumulative preferred stock	18.2
Company RR—capital stock and leaseback of affiliate	15.4
Company SS—preferred stock	38.0
Company TT—common stock and real estate leasebacks	66.3

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Employer company and description of securities held	*Percent of trust*
Company UU—common stock of company and affiliate	44.5
Company VV—3 percent promissory note and cumulative preferred stock	20.0
Company VV (salaried employees)—3 percent promissory note, common and cumulative preferred stock	14.0
Company WW—common stock	16.8
Company XX—registered 4½ percent debentures of affiliate	97.1
Company YY—debentures and common stock	54.1
Company ZZ—common stock	13.6
Company A3—common stock	13.3
Company B3—first mortgage real estate notes (4½ percent)	13.2
Company C3—convertible 3½ percent debentures, common and cumulative preferred stock	36.7
Company D3—preferred stock	18.5
Company E3—shares of affiliate	25.5
Company F3—notes receivable and 4½ percent demand notes of affiliate; real estate	18.9
Company G3—common and second cumulative preferred stock, subordinated convertible debentures, leaseback	11.4
Company H3—class A and B common and cumulative preferred stock	28.3
Company I3—common stock	40.1
Company J3—common and cumulative preferred stock	12.4
Company K3—mortgage notes	20.6

Appendix II

Profit-sharing plans with pension features in which more than 10 percent of the trust is invested in securities, leasebacks or other obligations of the employing company or affiliates

The majority of profit-sharing plans are not tied to pension plans. The employee generally receives his share of the plan in a lump sum upon leaving the company's employ, or upon retirement at 65, or his estate receives it upon his death.

In listing this material the subcommittee wishes to point out that it may be a characteristic of profit-sharing plans to invest in their own securities or properties. However, it feels that where the plan incorporates pension features the details should be made known to the employees.

Employer company and description of securities held	*Percent of trust*
Company A—loan	18.5
Company B—preferred stock	20.0
Company C—capital stock	45.9
Company D—trust and debenture loan	23.0
Company E—leaseback	46.0
Company F—leaseback	97.0
Company G—shares of affiliate	40.4
Company H—common stock	27.0
Company I—purchase contracts	57.0
Company J—cumulative preferred stock	12.0
Company K—chattel mortgage installment notes	15.0
Company L—trust and debenture loan	44.0
Company M—leaseback and secured loan to affiliate	92.0
Company N—shares of company	17.0
Company O—shares of company	33.3
Company P—preferred shares of affiliate	99.0
Company Q—5¼ percent promissory note	74.6
Company R—6 percent demand notes	46.0
Company S—shares of company	100.0
Company T—5 percent secured note	46.0
Company U—common stock	96.6

Employer company and description of securities held	*Percent of trust*
Company V—capital stock	50.1
Company W—cumulative preferred stock	26.6
Company X—5 percent note	83.9
Company Y—common stock	40.5
Company Z—shares of company	100.0
Company AA—common and cumulative convertible second preferred stock	100.0
Company BB—capital stock	100.0
Company CC—6 percent debentures	25.0
Company DD—common stock	10.1
Company EE—cumulative preferred stock	48.9
Company FF—6 percent promissory note and 6 percent debenture	21.0
Company GG—capital stock, leaseback-valued	94.2
Company HH—common and cumulative convertible preferred stock	39.7
Company II—shares of affiliate	27.4
Company JJ—common stock	71.4
Company KK—bond and mortgage	16.5
Company LL—common stock	44.9
Company MM—shares of company	100.0
Company NN—common stock	94.0
Company OO—common stock	29.4
Company PP—common and cumulative preferred stock; leaseback to affiliate	39.9
Company QQ—common stock	29.6
Company RR—common stock	79.1
Company SS—common stock	21.9
Company TT—common stock	98.0
Company UU—real estate leaseback	14.9
Company VV—preferred stock	10.4
Company WW—common stock and real estate leaseback	29.6
Company XX—common stock	15.1
Company YY—common stock	25.9
Company ZZ—preferred stock	24.8
Company A3—6 percent debentures	100.0
Company B3—preferred stock	21.4
Company C3—common and preferred stock	22.5
Company D3—convertible preferred stock; overriding royalty in real estate leases	15.0
Company E3—common stock	11.1
Company F3—common stock	65.7
Company G3—common stock	48.6
Company H3—common stock	71.9
Company I3—common stock	29.6
Company J3—equipment	23.3
Company K3—common stock	92.3
Company L3—3 percent debentures, capital stock, common stock, real estate	70.9
Company M3—common stock	14.4
Company N3—secured and promissory notes	72.0
Company O3—preferred stock	24.6
Company P3—common stock	14.4
Company Q3—common stock	10.0
Company R3—common and preferred stock	37.1
Company S3—common stock	10.0
Company T3—capital stock	68.7
Company U3—shares of company	73.7
Company V3—capital stock	48.1
Company W3—shares of company	49.9
Company X3—common stock	49.9
Company Y3—shares of company	49.8
Company Z3—common stock	49.6
Company A4—shares of company	43.8
Company B4—common stock	28.2
Company C4—4½ percent demand loan, rental lease	95.0
Company D4—mortgage	36.0

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Employer company and description of securities held	*Percent of trust*
Company E4—class A covertible debentures	20.0
Company F4—common stock	50.0
Company G4—shares of affiliate	19.6
Company H4—5 percent convertible debentures	13.0
Company I4—5 percent unsecured bonds	14.1
Company J4—shares of company, leasebacks	21.2
Company K4—leasebacks	45.7
Company L4—class B–5 percent noncumulative participating stock	11.9
Company M4—5 percent note on real estate loan	63.4
Company N4—class B stock	52.1
Company O4—5 percent note; real estate loan	13.4
Company P4—common stock	18.7
Company Q4—4½ percent note secured by first mortgage	19.5
Company R4—common stock	10.3
Company S4—4½ percent debentures	97.3
Company T4—cumulative preferred stock	40.9
Company U4—noncumulative preferred stock	49.1
Company V4—5½ percent collateral note	74.4
Company W4—preferred stock (employees' profit-sharing)	40.8
Company X4—cumulative preferred stock	79.6
Company X4—(profit-sharing trust) cumulative preferred stock	99.0
Company Y4—capital stock	100.0
Company Z4—common and preferred stock	46.0
Company A5—second cumulative preferred stock	84.9
Company B5—class A and B common stock	27.8
Company C5—class B common and cumulative preferred stock; 4 percent debenture trust note	81.3
Company D5—preferred stock; note of subsidiary	70.0
Company E5—common stock	78.7

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Calendar No. 1755

84TH CONGRESS, 2d Session | SENATE | REPORT No. 1735

AMENDING BANKRUPTCY ACT WITH REFERENCE TO REORGANIZATION OF RAILROADS

APRIL 16 (legislative day, APRIL 9), 1956.—Ordered to be printed

Mr. DANIEL, from the Committee on the Judiciary, submitted the following

REPORT

[To accompany S. 3025]

The Committee on the Judiciary, to which was referred the bill (S. 3025) to amend paragraph (2) of subdivision (c) of section 77 of the Bankruptcy Act, as amended, having considered the same, reports favorably thereon with amendments and recommends that the bill, as amended, do pass.

AMENDMENTS

1. Page 1, line 7, following the word "debtor", strike out the words "the trustee" and insert in lieu thereof the following: "with respect to safety, location of tracks, and terminal facilities, the trustee or trustees".

2. Page 1, line 8, following the word "bodies", insert the following: "of statewide jurisdiction".

3. Page 2, lines 3 and 4, strike out the words "over the objection of the trustee" and insert in lieu thereof the following: "(a) unless the trustee or trustees, with the approval of the court, shall consent thereto, or (b)".

4. Page 2, line 7, following the word "trustee", insert the words "or trustees".

5. Page 2, line 8, following the word "his", insert the words "or their".

90002°—57 S. Rept., 84-2, vol. 2——49

PURPOSE

The purpose of the proposed legislation, as amended, is to amend paragraph (2) of subdivision (c) of section 77 of the Bankruptcy Act, entitled "Reorganization of Railroads Engaged in Interstate Commerce," to allow the bankrupt estate with respect to safety, location of tracts, and terminal facilities, to comply with the lawful orders of a State regulatory body of statewide jurisdiction, so that improvements in railroad facilities can be made as needed prior to the final adoption of a plan of reorganization. The bill further provides that the trustee or trustees of the estate need not comply with the State regulatory order unless and until the Interstate Commerce Commission shall find that compliance with the order will not impair the ability of the trustee or trustees to perform his or their duties to the public, will not constitute an undue burden upon interstate commerce, will be compatible with the public interest, and will not interferr with the formulation and approval of a satisfactory plan of reorganization for the debtor, and further, that compliance shall be made with any applicable provision of the Interstate Commerce Act.

STATEMENT

This legislation was the subject of hearings before a subcommittee of the Committee on the Judiciary on March 20, 1956, at which time testimony was heard from proponents and opponents of this legislation.

Section 77 of the Bankruptcy Act deals with the reorganization of railroads engaged in interstate commerce. As stated at the hearings, the purpose of the section is to provide a method whereby railroads may reorganize for their benefit and for the benefit of the public, it being realized that interstate railroads are a public utility in which the public has an essential interest.

The hearings show that the recommendation for this legislation rises out of a situation now existing in the city of Miami, Fla. The Florida East Coast Railroad operates out of the city of Miami, and one of the assets of this railroad now in reorganization is the Miami railroad station, which was built in about 1914. The same railroad station now exists in that city. In 1922, the total population of Miami was about 20,000, and as far back as 1922, the city of Miami complained about the inadequacy of the station. The testimony indicates that the normal year-round population of Miami is presently 850,000 and the wintertime population runs close to 2 million, and, as stated, the same station now exists in Miami as existed in 1914.

The Florida East Coast Railway went into reorganization under section 77 of the Bankruptcy Act about August 31, 1931, which is almost 25 years ago. During this period, four proposed plans of reorganization have been through the Federal courts and the Interstate Commerce Commission. The United States Supreme Court has had the matter presented to it on three occasions. It appears that the Interstate Commerce Commission has issued innumerable reports, and now has the matter before it once more, so that the situation is static as to the changing of the terminal, the building of a new station, and related matters.

It appears from the testimony given that this is caused by the objections of certain bondholders to the reorganization plans that have thus

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far been proposed and that, as a result thereof, needed changes in the facilities mentioned may not be had until such final plan is approved. The committee, of course, realizes that the bondholders have a right to litigate and object to a plan of reorganization, and to carry the matter to the Supreme Court of the United States if they so desire.

The committee, in reviewing this matter, bears in mind that under section 77 of the Bankruptcy Act, dealing with interstate railroads which are in financial difficulties, the power to operate and administer the railroad and to effect a reorganization as a result of which a distressed railroad can continue as a strong and effective part of our national transportation system is divided between the Federal courts and the Interstate Commerce Commission. In *Palmer* v. *Mass.*, decided in 1939, which involved the reorganization of the New Haven Railroad, the Supreme Court said:

> The judicial processes in bankruptcy proceedings under section 77 is, as it were, brigaded with the administrative processes of the Commission.

It therefore follows that the Interstate Commerce Commission is an integral part in the operation of section 77 of the Bankruptcy Act. The committee does not desire to interfere with the rights of a litigant to this proceeding but does believe that the purpose of section 77 of the Bankruptcy Act includes the welfare of the public generally. In the situation at hand, it has been found that the public is suffering through the inability of the parties involved to reach an agreeable reorganization plan which would allow the change and improvements in the facilities mentioned.

The State of Florida has on several occasions approved and directed the changes herein sought, unavailingly. The committee is of the view that this situation has reached a point where the proposed amendment to the bankruptcy law is deemed meritorious. Not only should this particular situation be resolved, but if there be any other like situation, now or in the future, the committee believes that the amendment is necessary in order to safeguard the interests of the public generally. The bill as proposed allows both sides to be heard, so that the matter can be finally resolved. Proponents and opponents initially may be heard before the State regulatory body. In addition thereto, they may be heard before the Federal court on an order from the State regulatory body and, finally, under the limitations provided in the bill, the Interstate Commerce Commission may rule upon the merits of the order as it affects the public interests. It would appear that there are many instances when this type of proceeding would inure to the benefit of the bankrupt, the bondholders, and the public at large without having to await the approval and adoption of final reorganization plans.

The Interstate Commerce Commission in its report dated February 29, 1956, which is attached hereto and made a part hereof, states that it has no objection to the enactment of S. 3025, and states, in part, as follows:

> The proposed amendment, however, should be considered together with the provisions of section 959 (b), title 28, United States Code, which reads as follows:
>
> > A trustee, receiver or manager appointed in any cause pending in any court of the United States, including a

> debtor in possession, shall manage and operate the property in his possession as such trustee, receiver or manager according to the requirements of the valid laws of the State in which such property is situated, in the same manner that the owner or possessor thereof would be bound to do if in possession thereof.

The United States Supreme Court has stated that the obvious purpose of the foregoing provision was to negative any idea that a Federal receiver or trustee could ignore the rules of law of the State of operation affecting the conduct of the business committed to his care (*Palmer* v. *Webster & Atlas Nat. Bank of Boston*, 312 U. S. 156, 166). This provision, which is broad enough to include a trustee of a debtor in reorganization under section 77, has been held to subject receivers to public service regulations, workmen's compensation statutes, and applicable tax provisions. The Commission futher states:

"While section 959 (b), quoted above, undoubtedly is applicable to ordinary transactions incident to the conduct of a debtor railroad's business, there is some doubt under present law as to the enforcibility, without the consent of the bankruptcy court, of an order of a State regulatory body requiring construction or alteration of railroad facilities. With respect to the provisions of the antecedent law from which this section of the code was derived, the Supreme Court held that it did not restrict the power of the Federal court to preserve property in the custody of the law from external attack (*In re Tyler*, 149 U. S. 164, 182).

Presumably, S. 3025 is intended to supplement the provisions of section 959 (b), supra, and, subject to the conditions therein provided, to make it clear that a district court under whose jurisdiction a railroad is being reorganized may exercise no discretion with respect to complying with lawful orders of State regulatory bodies. As we construe the proposed amendment, an order of a State public service commission requiring construction of a new passenger station, relocation of tracks, or elimination of grade crossings, even though such projects might require the expenditure of substantial sums of money and result in diminishing the funds which otherwise might be distributable to creditors, would be enforcible without the consent of the trustee or the district court having jurisdiction of the debtor's property, provided the findings specified in the bill are made by this Commission and compliance is made with any applicable provision of the Interstate Commerce Act."

For all of the reasons heretofore stated, and based upon the evidence presented to the subcommittee of the Committee on the Judiciary, it is recommended that the bill, S. 3025, as amended, be considered favorably.

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INTERSTATE COMMERCE COMMISSION,
Washington, February 29, 1956.

CHAIRMAN, COMMITTEE ON THE JUDICIARY,
United States Senate, Washington, D. C.

DEAR MR. CHAIRMAN: The letter of former Chairman Kilgore dated February 10, 1956, addressed to the Chairman of the Commission and requesting a report and comments on a bill, S. 3025, introduced by Senator Smathers, to amend paragraph (2) of subdivision (c) of section 77 of the Bankruptcy Act, as amended, has been referred to our Committee on Legislation. After careful consideration by that committee, I am authorized to submit the following comments in its behalf:

Paragraph (1) of section 77 (c) of the Bankruptcy Act provides for the appointment of a trustee or trustees of the property of a debtor subject to the provisions of section 77, and paragraph (2) thereof, which S. 3025 would amend, provides, among other things, that a trustee so appointed shall have "the powers of a receiver in an equity proceeding, and, subject to the control of the judge and the jurisdiction of the Commission as provided by the Interstate Commerce Act as now or hereafter amended, the power to operate the business of the debtor." Thus, as indicated, the trustee in operating the business of the debtor specifically is made subject to the provisions of the Interstate Commerce Act and to the jurisdiction of this Commission. However, the section is silent with respect to the applicability of State laws and the jurisdiction of State regulatory bodies to such operation. S. 3025 would make specific provision respecting the applicability of such laws and jurisdiction by adding the following sentence immediately after the language quoted above:

"In operating the business of the debtor the trustee shall be subject to lawful orders of State regulatory bodies to the same extent as would the debtor if a petition respecting it had not been filed under subsection (a) of this section except that (A) any such order which would require the expenditure, or the incurring of an obligation for the expenditure, of money from the debtor's estate shall not become effective over the objection of the trustee, unless and until the Commission, upon appropriate application or applications by an interested party or interested parties, shall find that compliance with the order will not impair the ability of the trustee to perform his duties to the public, will not constitute an undue burden upon interstate commerce, will be compatible with the public interest, and will not interfere with the formulation and approval of a satisfactory plan of reorganization for the debtor, and (B) compliance shall be made with any applicable provision of the Interstate Commerce Act."

The proposed amendment, however, should be considered together with the provisions of section 959 (b), title 28, United States Code, which reads as follows:

"A trustee, receiver or manager appointed in any cause pending in any court of the United States, including a debtor in possession, shall manage and operate the property in his possession as such trustee, receiver or manager according to the requirements of the valid laws of the State in which such property is situated, in the same manner that the owner or possessor thereof would be bound to do if in possession thereof."

The United States Supreme Court has stated that the obvious purpose of the foregoing provision was to negative any idea that a Federal receiver or trustee could ignore the rules of law of the State of operation affecting the conduct of the business committed to his care (*Palmer* v. *Webster & Atlas Nat. Bank of Boston*, 312 U. S. 156, 166). This provision, which is broad enough to include a trustee of a debtor in reorganization under section 77, has been held to subject receivers to public service regulations, workmen's compensation statutes, and applicable tax provisions.

While section 959 (b), quoted above, undoubtedly is applicable to ordinary transactions incident to the conduct of a debtor railroad's business, there is some doubt under present law as to the enforcibility, without the consent of the bankruptcy court, of an order of a State regulatory body requiring construction or alteration of railroad facilities. With respect to the provisions of the antecedent law from which this section of the code was derived, the Supreme Court held that it did not restrict the power of the Federal court to preserve property n the custody of the law from external attack (*In re Tyler*, 149 U. S. 164, 182).

Presumably, S. 3025 is intended to supplement the provisions of of section 959 (b), supra, and, subject to the conditions therein provided, to make it clear that a distrct court under whose jurisdiction a railroad is being reorganized may exercise no discretion with respect to complying with lawful orders of State regulatory bodies. As we construe the proposed amendment, an order of a State public service commission requiring construction of a new passenger station, relocation of tracks, or elimination of grade crossings, even though such projects might require the expenditure of substantial sums of money and result in diminishing the funds which otherwise might be distributable to creditors, would be enforcible without the consent of the trustee or the district court having jurisdiction of the debtor's property, provided the findings specified in the bill are made by this Commission and compliance is made with any applicable provision of the Interstate Commerce Act.

We believe that the findings which would be required to be made by this Commission under the proposed measure as a condition precedent to the enforcement of an order within the purview of the amendment would afford adequate protection to the debtor's estate and the public interest, but whether control over such matters should be transferred from the district courts to this Commission is a question of congressional policy.

We have no objection to the enactment of S. 3025.

Respectfully submitted.

ANTHONY ARPAIA, *Chairman.*
J. M. JOHNSON.
OWEN CLARKE
Committee on Legislation.

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CHANGES IN EXISTING LAW

In compliance with subsection (4) of rule XXIX of the Standing Rules of the Senate, changes in existing law made by the bill, as reported, are shown as follows (new matter is printed in italics, existing law in which no change is proposed is shown in roman):

UNITED STATES CODE, TITLE 11, CHAPTER 8, SECTION 205

SEC. 77. REORGANIZATION OF RAILROADS ENGAGED IN INTERSTATE COMMERCE.—

* * * * * * *

(2) The judge shall fix the amount of the bond of every trustee. He may thereafter terminate any such appointments on cause shown, and may in that event and in the event of a vacancy from any other cause, in the manner and within the qualifications herein provided for the appointment of trustees, appoint a substitute trustee or trustees, and in the same manner and within the same qualifications may appoint an additional trustee, and shall fix the amount of the bond of every such substitute or additional trustee or trustees. The judge shall in his discretion confirm the appointment of such legal counsel for the trustees as they shall select, with power of removal. The trustee or trustees and their counsel shall receive only such compensation from the estate of the debtor as the judge may from time to time allow within such maximum limits as may be approved by the Commission as reasonable. The trustee or trustees so appointed, upon filing such bond, shall have all the title and shall exercise, subject to the control of the judge and consistently with the provisions of this section, all of the powers of a trustee appointed pursuant to section 44 of this Act or any other section of this Act, and, to the extent not inconsistent with this section, if authorized by the judge, the powers of a receiver in an equity proceeding, and, subject to the control of the judge and the jurisdiction of the Commission as provided by the Interstate Commerce Act as now or hereafter amended, the power to operate the business of the debtor. *In operating the business of the debtor with respect to safety, location of tracks, and terminal facilities, the trustee or trustees shall be subject to lawful orders of State regulatory bodies of statewide jurisdiction to the same extent as would the debtor if a petition respecting it had not been filed under subsection (a) of this section except that (A) any such order which would require the expenditure, or the incurring of an obligation for the expenditure, of money from the debtor's estate shall not become effective (a) unless the trustee or trustees, with the approval of the court, shall consent thereto, or (b) unless and until the Commission, upon appropriate application or applications by an intersted party or interested parties, shall find that compliance with the order will not impair the ability of the trustee or trustees to perform his or their*

duties to the public, will not constitute an undue burden upon interstate commerce, will be compatible with the public interest, and will not interfere with the formulation and approval of a satisfactory plan of reorganization for the debtor, and (B) compliance shall be made with any applicable provision of the Interstate Commerce Act. Prior to the appointment of a trustee, the debtor on behalf of the court shall continue in the possession of the property and shall operate the business thereof during such period, and shall have all the title to the property and shall exercise all power consistent with the provisions of this section, subject at all times to the control of the judge, and to such limitations, restrictions, terms, and conditions as he may from time to time impose and prescribe.

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Calendar No. 1757

84TH CONGRESS, 2d Session | SENATE | REPORT No. 1737

WOODROW WILSON CENTENNIAL CELEBRATION

APRIL 16 (legislative day, APRIL 9), 1956.—Ordered to be printed

Mr. O'MAHONEY, from the Committee on the Judiciary, submitted the following

REPORT

[To accompany H. J. Res. 444]

The Committee on the Judiciary, to which was referred the joint resolution (H. J. Res. 444) to authorize and request the President to issue a proclamation in connection with the centennial of the birth of Woodrow Wilson, having considered the same, reports favorably thereon without amendment and recommends that the resolution be agreed to.

PURPOSE

The purpose of the proposed resolution is to authorize and request the President of the United States to issue a proclamation in connection with the centennial of the birth of Woodrow Wilson.

STATEMENT

This joint resolution authorizes and requests the President to issue a proclamation inviting appropriate observances of the centennial anniversary of the birth of President Woodrow Wilson. President Wilson was born 100 years ago, in Staunton, Va. This centennial year many public and private groups are participating in appropriate celebrations.

Public Law 705 of the 83d Congress (68 Stat. 964), approved August 30, 1954, established the Woodrow Wilson Centennial Celebration Commission to develop and execute plans for the celebration this year of the 100th anniversary of President Wilson's birth.

Since the creation of the Centennial Commission, the Congress has approved legislation authorizing appropriations for the expenses in connection with this centennial.

In view of the fact that the Congress has indicated its wholehearted approval of this centennial celebration by creating a Commission and authorizing appropriations for expenses of the Commission, this committee believes it is most fitting and proper that Congress further encourage the celebration in this centennial year by authorizing the President of the United States to issue a proclamation. Accordingly, the committee recommends that this joint resolution be considered favorably and recommends approval of House Joint Resolution 444 without amendment.

CHANGES IN EXISTING LAW

In compliance with subsection (4) of rule XXIX of the Standing Rules of the Senate, changes in existing law made by the bill, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italics, existing law in which no change is proposed is shown in roman):

(68 Stat. 964, as amended)

* * * * *

SEC. 6. The President is authorized and requested to issue a proclamation, as soon as practicable in the year 1956, inviting the people of the United States to observe the centennial anniversary of the birth of Woodrow Wilson with appropriate ceremonies and activities during that year.

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Calendar No. 1776

84TH CONGRESS, 2d Session | SENATE | REPORT No. 1756

PROVIDING FOR THE PROCUREMENT OF MEDICAL AND DENTAL OFFICERS OF THE ARMY, NAVY, AIR FORCE, AND PUBLIC HEALTH SERVICE

APRIL 16 (legislative day, APRIL 9), 1956.—Ordered to be printed

Mr. RUSSELL, from the Committee on Armed Services, submitted the following

REPORT

[To accompany H. R. 9428]

The Committee on Armed Services to whom was referred the bill H. R. 9428, to provide for the procurement of medical and dental officers of the Army, Navy, Air Force, and Public Health Service, and for other purposes, having considered same, report favorably thereon with amendments and recommend that the bill, as amended, do pass.

AMENDMENTS

On page 1, line 9, strike the word "original".

On page 3, line 4, strike the word "enactment" and insert in lieu thereof the words "effective date".

On page 3, line 6, before the word "date" insert the word "effective".

On page 3, line 17, before the word "date" insert the word "effective".

On page 3, line 18, strike the words "of enactment".

On page 4, line 13, strike the word "enactment" and insert in lieu thereof the words "effective date".

On page 5, line 21, after the words "for each such" insert the word "medical".

On page 6, line 3, strike the words "and the service", strike all of lines 4, 5, and 6, and insert in lieu thereof the following:

> and, notwithstanding any other provision of law, the service credit authorized by this clause shall not—
>
> (A) be included in establishing eligibility for voluntary or involuntary retirement or separation from the service, under any provision of law;

(B) increase the retired or retirement pay of a person who became entitled to such pay prior to May 1, 1956; or

(C) increase the retired pay of a person who becomes entitled to such pay under title III of the Army and Air Force Vitalization and Retirement Equalization Act of 1948 (62 Stat. 1087), on or after May 1, 1956, but who does not perform active duty after May 1, 1956."

On page 6, strike lines 7 and 8, and insert in lieu thereof the following:

SEC. 3. Title II of the Public Health Service Act (Act of July 1, 1944, 58 Stat. 683), as amended, is further amended by adding at the end thereof the following new section:

"PROMOTION CREDIT—ASSISTANT GRADE

"SEC. 220. Any medical officer of the Regular Corps of the Public Health Service who—

On page 7, strike lines 1, 2, and 3, and insert in lieu thereof the following:

(1) By inserting in the first sentence of paragraph (1) of section 211 (e) and in the first sentence of paragraph (3) of section 311 (d), after the words "a staff corps", the words "other than the Medical and Dental Corps", and deleting in those sentences the words "if of other than the Medical Corps, and in the preceding calendar year if of the Medical Corps,".

On page 7, line 12, delete "SEC. 5." and insert in lieu thereof "SEC. 5. (a)".

On page 7, line 19, strike the word "three" and insert in lieu thereof the word "two".

On page 7, line 22, after the words "service for those" insert the word "veterinary".

On page 7, line 25, strike the word "three" and insert in lieu thereof the word "two".

On page 8, after line 12, insert the following new subsection:

(b) Section 203 (b) of such Act is further amended by striking out the following words in the third proviso: "of $100 per month as is".

On page 8, renumber "SEC. 6." to read "SEC. 7." and insert the following new section 6:

SEC. 6. Any person who, on the day before the effective date of this Act, has not completed 18 years of service creditable in the computation of active-duty pay in the uniformed service of which he is a member and who, as a result of the enactment of this Act, is upon the effective date of this Act credited with more than seventeen years of such service shall, notwithstanding any other provision of law, be allowed 12 months from the effective date of this Act within which to make the election provided for in section 3 (a) of the Uniformed Services Contingency Option Act of 1953 (67 Stat. 502).

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Purpose of Committee Amendments

The principal amendment recommended by the committee was the authorization of the first special pay increase (from $100 to $150 per month) after the end of 2 years of active duty as a medical or dental officer rather than 3 years. The required period of service under doctor-draft law is 2 years and more than 90 percent of the physicians and dentists entering service under the impetus of that legislation return to civilian life at the end of the 2-year period. The committee was of the opinion that a greater number of physicians might remain in military service if the first increase were authorized at the time when the greatest number normally return to civilian life.

The committee amended section 2 of the bill, which authorizes constructive service for pay longevity purposes of 4 years for dentists and 5 years for physicians who had completed internships, by expressly excluding from the benefits of this provision medical and dental officers who are retired prior to May 1, 1956. In addition this section was amended so as to exclude Reserve officers retired under title III of Public Law 810 of the 80th Congress from the benefits of this section unless they perform active duty after May 1, 1956. These revisions of section 2 were adopted on the premise that the principal purpose of the bill is to induce medical and dental officers to volunteer for a career of active military service.

The committee also adopted language (sec. 6) which would prevent medical and dental officers from being deprived of the opportunity of making an election under the Uniformed Services Contingency Option Act of 1953, solely by virtue of the longevity pay credit provided in section 2 of the bill. Under the 1953 legislation officers must exercise their election under the act prior to the time they have completed 18 years of service for pay purposes. By virtue of the 5 years of constructive service for pay purposes extended to physicians and the 4 years extended to dentists under the bill, officers who had, for example, completed only 16 years of service and who had not exercised an election would be deprived of the opportunity, since as a matter of law they would have completed more than 18 years for pay purposes. This provision allows those who would be so affected, 12 months after the effective date of this bill in order to make an election.

The remaining amendments were strictly technical and clarifying in nature and do not change the sense of the various provisions.

Purpose of the Bill

TO REVERSE THE TREND OF LOSSES OF MEDICAL PERSONNEL

The purpose of H. R. 9428 is to reverse the alarming rate of losses among career medical and dental officers of the Armed Forces. Since July 1953 (when the restriction against resignations was lifted) there has been such a decline in the numbers and the experience level of career medical officers that the Regular medical services in the next few years will cease to exist as an effective group if such losses continue. The basic objectives of this bill are twofold:

(*a*) *To increase the career military corps to two-thirds of the total requirement*

Out of a total requirement of 10,800 medical and dental officers in the Department of Defense, there are on active duty in the military services of the Department approximately 10,000. Only about 3,300 are career personnel. It is the hope of the Department of Defense that the incentives under this bill will increase the number of career military doctors from one-third to two-thirds of the total active duty medical officer requirement. This number would provide for sufficient stability and experience level. The remaining one-third could be fulfilled with relatively inexperienced doctors who had just completed an internship.

(*b*) *To reduce the wasteful turnover of medical personnel*

In the last 3 fiscal years 19,985 medical and dental officers entered the military services under the impetus of the Doctor Draft Act. During the same period 22,340 medical and dental officers left the military services and departed to civilian life. The Department of Defense states that if an additional 3,000 doctors could be obtained on a career basis, there would be 12,000 doctors who would not have to be drafted in the next 6 years. Because of the constant 2-year, turnover, there is about a 25-percent loss of time involved in travel indoctrination, and processing for entering and leaving the military service.

Need for the Legislation

SERIOUS LOSSES OF CAREER MEDICAL PERSONNEL

In the past 2 fiscal years the military services have lost about 25 percent of their Regular Medical Corps which has amounted to about 1,000 medical officers. Of this number 808 resigned from the service, with the remainder being lost through death or retirement. In the same period of time, only 350 have been taken into the Regular corps. It is doubtful that most of these entered the medical service with the intention of becoming career officers since most of them accepted regular commissions in order to participate in the residency training program. Experience has indicated that under present circumstances about 55 percent of the medical officers who accepted Regular commissions to enter this program resign their commissions after completing the obligated periods of service.

During the past 2 fiscal years only about 5 percent (350 out of 7,500) of the physicians who entered the service under the doctor draft remained on active duty beyond the required 2-year period. The 5 percent who remained on active service did so in order to enter the residency training program offered by the services. As indicated above, about 55 percent of those who did remain resigned at the end of their obligated period of service.

Example of losses

(Army) In the Army, during the past 2 fiscal years, of those career officers eligible to resign, 76 percent of the medical officers serving in the grade of captain have resigned, 66 percent of the majors, 24 percent of the lieutenant colonels, and 2 percent of the colonels have resigned.

(Navy) During the same period in the Navy, nearly 300 Regular Naval medical officers resigned their commissions and 70 others were

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lost through death or retirement. Most of these losses were medical officers with considerable training and experience. Eighty-five of these resignations were medical officers serving in the grades of commander or captain; over 90 percent of the nearly 300 Regular Navy medical officers who resigned their commissions had had some specialty training; approximately one-third were board certified specialists, and, an additional one-third had completed their formal training and were therefore eligible to take their boards. The loss in experience level through these resignations is obvious. The Navy was able to obtain only 39 relatively inexperienced medical officers in these 2 fiscal years to replace this loss.

Dental career personnel losses

A serious procurement and retention problem also exists with respect to career dental personnel in the armed services. For example, during the past 2 fiscal years, although the 3 military departments gained 115 new Regular dental officers, their losses during this same period amounted to 282. At present, the 3 services are short approximately 2,500 Regular dental officers.

As in the case of Medical Corps officers, the services' requirements for dental officers are now being primarily met through the doctor draft.

DEPENDENCE ON THE DOCTOR DRAFT FOR MEDICAL PERSONNEL

Since the beginning of the Korean emergency in June 1950 when the Armed Forces expanded from about 1.5 million to more than 3 million, the additional medical officers required to support the medical mission of the Armed Forces have been provided solely by the doctor-draft legislation.

In the military services today there are approximately 10,000 medical officers and 6,000 dental officers. Of the dental officers on active duty only one-fourth are career personnel. Of the medical officers, only one-third are career officers. The pool of physicians available under the doctor draft who are not otherwise available under the regular draft laws is rapidly being exhausted. The only other method for meeting the medical needs of the Armed Forces is to increase the size of the career Medical Corps.

PROSPECTIVE REDUCTION IN THE EXPERIENCE LEVEL OF MEDICAL OFFICERS

The required experience level for medical officers in the Department of Defense has been possible only because of the older physicians who have entered military service because of the doctor draft. Out of a total requirement of approximately 10,800 medical officers, the Department of Defense considers that 70 percent should be experienced, that is, have completed a minimum of 2 years' experience after the end of their internship.

As of the moment, the level of experience is satisfactory since about 7,800 out of the 10,000 physicians now on active duty have completed the minimum 2-year period. After the next fiscal year, however, the pool of older physicians available under the doctor draft will be substantially exhausted. Unless a greater number of physicians are attracted and retained in the Armed Forces, there will be

a gradual decline in the experience level which will result in only about 30 percent of the officers being experienced in 1959.

REASONS FOR THE FAILURE OF MEDICAL OFFICERS TO UNDERTAKE A MILITARY CAREER

The Department of Defense has completed an extensive survey in an effort to ascertain the reasons for the inability of the services to attract medical officers. The chief causes were as follows:

(*a*) *Disparity of military income with that of civilian physicians*

The principal reason for the failure of physicians to either enter or remain on active service is the disparity between their military compensation and that received by comparable civilian physicians. The average civilian physician who has completed 10 years of practice receives a net income, after office expenses, of approximately $16,500 The average medical officer 10 years out of medical school will probably be a major or lieutenant commander. His total compensation including basic pay, allowances, and special pay of $100 per month is $8,640 per year.

The compensation of medical officers also compares unfavorably with the salaries which the Federal Government extends to physicians who are in civil service or who are employed by the Veterans' Administration. The civil service pay scales for physicians range from $7,645 per year to $12,690 per year, except for a few special positions calling for supergrades. The physician who has completed 10 years of civilian practice would be eligible for a civil-service appointment of GS–15 with an annual compensation of $12,690. In the Veterans' Administration, where special salaries are extended to board certified specialists, the physician with 10 years of experience may qualify for a beginning salary ranging from $12,900 to $13,760 per year.

(*b*) *Instability and frequent assignments*

The average medical officer can expect to be reassigned about twice as often as other career officers. The Department of Defense indicates that it is necessary to move the majority of Regular medical officers in a period of less than 2 years and sometimes as often as once a year. This condition exists because of the tremendous turnover of physicians in the Armed Forces resulting from the doctor draft (which requires 2 years of service) and from the resignation rate. Regular officers frequently must be moved to replace a Reserve officer who is being separated without a replacement being immediately available.

With a stable career corps, the majority of assignments for career officers would be for approximately 3 or 4 years.

(*c*) *Lack of promotion opportunity*

In the past, because of failure to extend full constructive service for permanent promotion credit for a period equal to their professional training, the average medical officer has been at a disadvantage in comparison with his line contemporaries. The bill attempts to correct this feature by providing for an increase of 1 year of constructive service credit.

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INHERENT RESPONSIBILITIES WHICH MAY MAKE THE MILITARY MEDICAL SERVICES COMPARATIVELY UNATTRACTIVE AS A MEDICAL CAREER

The military services maintain throughout the world a total of about 2,000 medical units which must be staffed. Many of these are in remote and undesirable locations. One-third of all United States military personnel are either overseas or on the seas. Medical care for nearly 400,000 dependents overseas can be provided only by military doctors. The duty assignments and the long working hours involved in serving in many of these locations make the military career as a medical officer unattractive as compared to that of a civilian physician.

Comparison of total monthly compensation of medical officers with physicians in civil service and private practice

Experience after internship	Medical officer			Civil service	Private practice net (after office expenses) (1953 estimates)
	Present law	The bill			
		Increase	Total		
2 years (captain)	$576	$130	$706	$720	$900
6 years (major)	696	155	851	$839–950	1,000
10 years (major)	751	181	932	950–1,669	$1,280–1,400
15 years (lieutenant colonel)	846	197	1,043	1,060	1,470–1,720

The Veterans' Administration specialist receives a 25-percent increase in base pay for board certification, which amounts to increases from approximately $90 to $200 per month over civil service pay scales.

With respect to the averages for private practice it should be noted that the figures represent estimates of incomes in 1953, based on Department of Commerce studies.

MEDICAL MISSION OF THE ARMED FORCES

The medical mission of the Armed Forces requires a strong career corps in order to meet its two basic responsibilities.

(*a*) *Medical care*

Medical care for members of the Armed Forces for the purpose of maintaining the combat readiness of the military forces.

(*b*) *Progress in military medicine*

There are certain unique aspects of military medicine which have no direct counterpart in civilian medicine. These activities are vital in adapting military manpower to our revolutionary changes in weapons systems. Examples of these activities include:

(1) research in the fields of aviation medicine (including pilot selection, accident prevention and pilot personal and aeromedical safety and protective equipment development),

(2) atomic and submarine medicine (including crew selection, operational fatigue problems, atomic and nuclear hazard controls, and submarine habitability and equipment problems), and

(3) field medicine (including mass casualty handling and evacuation) and injury and disease prevention techniques (including body armor) under operational and combat conditions.

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MAJOR FEATURES OF THE BILL

The bill proposes to achieve its purpose by providing additional compensation in two forms—constructive service credit for pay longevity purposes, and increased special pay. In addition the bill authorizes a 1-year increase in constructive service for permanent promotion purposes for medical and dental officers. The total increased compensation for medical and dental officers under the bill would average from about $50 per month to $200 per month, depending on grade and length of service.

The three major features of the bill are:

(*a*) *Constructive service for pay longevity purposes*

The bill provides for constructive service credit for pay purposes of 5 years for medical officers who complete an internship and 4 years for dental officers. The average increase under this provision is about $50 per month. The maximum would be $85 per month. Officers in certain pay brackets would receive no increases. An example of an increase under this provision might be a medical officer with no prior service who received an appointment in the grade of major. Under existing law his basic pay would be $400.14 per month (pay bracket of his grade with under 2 years of service). With the constructive service authorized under the bill he would be entitled to basic pay in the amount of $429 per month (pay bracket of his grade with over 4 years of service). By recognizing the period of professional education for longevity pay purposes, medical and dental officers would be in the same pay bracket for their grade as their line officer contemporaries who entered military service at the same time as the medical and dental officers entered their professional schools. The total additional annual cost of this provision is estimated to be $9,577,000.

(*b*) *Increased special pay*

Under existing law all medical and dental officers, regardless of length of service, receive special pay in the amount of $100 per month. This bill would increase such pay, depending on their length of active service as a medical and dental officer. Such officers with less than 2 years of active medical and dental duty would continue to receive the special pay of $100 per month; those with active service of between 3 and 6 years as medical and dental officers would receive $150 per month in special pay; those with between 6 and 10 years of such service, $200 per month in special pay; and those with more than 10 years, $250 per month in special pay. The special pay increases are aimed at recognizing experience in some degree and making the military medical compensation more competitive with incomes received by civilian physicians of similar experience. The total estimated additional annual cost of this provision is $9,878,200.

(*c*) *Additional 1-year promotion service credit*

The bill also authorizes a 1-year increase in constructive service for medical and dental officers for permanent promotion seniority purposes. The amount of such service for physicians is increased from 4 to 5 years for those who complete internships and from 3 to 4 years for dentists. The increased credit will have no immediate practical effect since the credit has already been extended administratively for temporary promotion purposes.

Inclusion of Public Health officers

The bill provides that medical and dental officers of the Public Health Service will be covered in the same manner as such officers in the Armed Forces. Since members of the Public Health Service have traditionally received the same pay as members of the Armed Forces, the Public Health Service is confronted with many of the same problems in respect to attracting career medical personnel.

ESTIMATED ADDITIONAL COST: $19,455,200

The estimated additional cost for the first fiscal year following enactment of this bill is as follows:

	Longevity	Increased special pay	Total
Army	$3,300,000	$3,065,400	$6,365,400
Navy	2,600,000	3,071,800	5,671,800
Air Force	2,800,000	2,270,800	5,070,800
Total, Department of Defense	8,700,000	8,408,000	17,108,000
United States Public Health Service	877,000	1,470,200	2,347,200
Total	9,577,000	9,878,200	19,455,200

SECTIONAL ANALYSIS

Section 1. Increase of 1 year in constructive service for promotion purposes

The principal purpose of the various subsections of section 1 is to provide a 1-year increase for medical and dental officers in constructive service promotion credit. Such credit would be increased from 3 to 4 years for dental officers and from 4 to 5 years for medical officers who have completed their internships.

The justification of these increases is the fact that the minimum predental and premedical educational requirements have been increased in recent years by 1 additional year. As a practical matter, most entering medical and dental students have completed 4 years of preprofessional education. In general, an internship is required for physicians for appointment in the Armed Forces, but is not required for dentists, which accounts for the additional 1 year of constructive service credit granted to physicians. Therefore, dentists are authorized 1 year less of constructive service than physicians.

Subsection 201 (a) is in effect a restatement of the existing law

This subsection authorizes the President to make regular appointments in the grade of first lieutenant through Colonel in the medical services of the Army and Air Force and equivalent grade in Medical and Dental Corps of the Navy, subject to such qualifications as may be prescribed. The subsection does provide a technical change whereby appointments in the Air Force are expressly authorized. Existing law relates only to the Army and Navy. Appointments in the Air Force are made pursuant to provision of the National Security Act making legislation applicable to the Army also applicable to the Air Force.

Subsection 201 (b). Additional increase of 1 year in constructive service for permanent promotion purposes

This subsection provides that a dentist appointed under this act would be credited with not less than 4 years' service and a physician who has completed an internship would be credited with not less than 5 years' service. The service credit authorized by this subsection is for the purpose of determining grade, position on a promotion list, and eligibility for promotion of medical and dental officers.

In addition to the 4 and 5 years of service credit for professional education referred to above, officers appointed under this act would, when applicable, be credited for the purposes enumerated above with their actual commissioned service and their years of professional experience subsequent to graduation from dental school or completion of a medical internship. In determining service credit under this subsection, however, the services would not count any period of time more than once.

The Department of Defense has administratively prescribed policies for determining the temporary grade of young medical and dental officers in the Army, Navy, or Air Force which take into account the 4 and 5 years' service credit referred to above. In addition, the Army and Navy have made administrative adjustments for temporary promotion purposes which have resulted in full credit being given to medical and dental officers below flag or general officer rank for the long and expensive years of professional education required of them in order to qualify for appointment in the Medical or Dental Corps.

Subsection 201 (c). Authority to adjust the records in order to reflect the additional constructive service credit

This subsection authorizes the Secretaries of the Army, Navy, and Air Force to convene boards of officers in order to review the records and compute the service of each medical and dental officer appointed under any provision of law prior to the effective date of the bill, and in order to adjust the service credited to these officers to reflect the additional credit authorized by the bill.

This subsection further provides that officers in the Army and Air Force who are made eligible for promotion as a result of a readjusted service credit will be considered for promotion by the next selection board considering officers of their grade and category and that Navy officers, also, where appropriate, will be promoted upon the recommendation of a board of officers and assigned to a lineal position in the higher grade.

It might be noted that this subsection contains language to the effect that no lineal adjustment will be made with respect to officers in the Medical and Dental Corps of the Navy in the rank of captain which will result in a date of rank earlier than July 1, 1955. The reason for this provision is that increased constructive service for promotion seniority purposes in the grade of captain could have little or no effect on any possible promotions to flag rank. It was therefore considered that the disadvantages of lineal readjustments in the grade of captain outweighed any possible advantages which would be achieved by readjustments based on additional constructive service.

Subsection 201 (d). Constructive credit for temporary officers

This subsection provides that medical and dental officers who receive temporary appointments in the Army and Air Force will be

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credited with the same amount of constructive service as authorized in subsection (b) for officers receiving permanent appointments as medical and dental officers. As a practical matter, this subsection will not affect existing promotion procedures. The Army and Air Force have permanent authority under the Officer Personnel Act to make temporary appointments subject to such qualifications as the Secretaries may prescribe. The Department of the Navy is not affected by this subsection inasmuch as it does not have temporary medical and dental officers.

Subsection 201 (e). Temporary promotion to Army captain or Navy lieutenant

This subsection provides that a doctor of medicine or doctor of dentistry who is appointed under this or other acts as a medical or a dental officer may be promoted temporarily to the grade of captain in the Army and Air Force or lieutenant in the Navy at any time subsequent to 1 year after the completion of medical or dental school.

Subsection 201 (f). Assignment of running mate in the Navy

This subsection relates only to the Navy and provides for the assignment of line running mates in the permanent grade of lieutenant (junior grade) for Navy medical and dental officers who may be promoted to the temporary grade of lieutenant under subsection 201 (e).

Section 202. Authority for secretarial regulations

This section authorizes the Secretaries of the Army, Navy, and Air Force to prescribe regulations for the implementation of the authority contained in section 1 of the bill.

Section 2. Recognition of constructive service for pay longevity purposes—additional annual cost, $9,577,000

Section 2 would provide additional language to the existing provisions of the Career Compensation Act relating to service creditable in the computation of basic pay.

Section 2 of the bill amends the Career Compensation Act of 1949 so that physicians and dentists of the uniformed services will be credited with 4 years—and in the case of physicians who have completed an internship, 5 years—constructive service credit for their professional education in computing their cumulative years of service for purposes of determining their basic pay. Under this section, a medical officer entering on active duty after completing an internship would, even though he had had no prior service, be credited with 5 years of service for pay purposes. A physician who had a military internship could not count such service twice under this section. Likewise, a person who had been a member of a Reserve component (not on active duty) while in medical school or while undergoing a civilian internship could not count such period twice for pay purposes under this section.

It should be emphasized that the constructive service credit authorized under this clause will not be included in establishing eligibility for voluntary or involuntary retirement or separation from the service under any provision of law.

The committee amended section 2 of the bill, which authorizes constructive service for pay longevity purposes of 4 years for dentists and 5 years for physicians who had completed internships, by expressly

excluding from the benefits of this provision medical and dental officers who are retired prior to May 1, 1956. In addition, this section was amended so as to exclude Reserve officers retired under title III of Public Law 810 of the 80th Congress from the benefits of this section unless they perform active duty after May 1, 1956. These revisions of section 2 were adopted on the premise that the principal purpose of the bill is to induce medical and dental officers to volunteer for a career of active military service. With respect to eligibility for retirement under title III of Public Law 810 of the 80th Congress, it might be noted that the constructive service credit authorized under section 2 would constitute neither active service nor satisfactory Federal service as defined in title III of Public Law 810. The only practical effect, therefore, of the constructive service credit insofar as title III is concerned would be to permit the medical or dental officers concerned to count such constructive service in determining the basic pay on which his retired pay would be based.

It should be noted that no constructive credit for pay purposes is presently authorized for any military personnel. Total additional annual cost, $9,577,000.

Section 3. Constructive service credit for Public Health officers

The purpose of this section is to authorize regular medical officers of the Public Health Service the same additional service for promotion purposes as the bill authorizes for medical and dental officers of the Army, Navy, and Air Force. It provides that a physician appointed to the assistant grade (which is the equivalent of first lieutenant in the Army or Air Force and lieutenant (junior grade) in the Navy) will receive an additional year of constructive credit unless he received his intern training as an officer of the Public Health Service, in which case he will receive no additional credit. The provisions of title II of the Public Health Service Act are such that it is not necessary to provide any additional credit to officers in the Public Health Service in the senior assistant grade (the equivalent of captain in the Army or Air Force and lieutenant in the Navy) and above. No adjustments are necessary for Public Health Service dental officers inasmuch as they are already receiving the equivalent of 4 years' constructive credit.

The committee recommended a technical amendment to section 3 which would have the effect of making the provisions of section 3 a part of the basic legislation governing the appointment and promotion of Public Health Service medical and dental officers. Prior to the committee amendment this section would not become a part of the Public Health Service Act but would technically remain in whatever public law resulted from the enactment of H. R. 9428.

Section 4. Repeal of provisions of Officer Personnel Act of 1947

The purpose of section 4 is to repeal those provisions of the Officer Personnel Act of 1947 relating to medical and dental officers of the Army, Navy, and Air Force which are inconsistent with the provisions provided elsewhere in this bill.

The repeal of section 211 (e) (1) of the Officer Personnel Act of 1947 would eliminate the fanning principle (the system whereby staff corps officers are interspersed with line officers on a lineal list), which has proven impracticable of operation for medical and dental officers under present temporary promotion policies. The precedence of

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medical and dental officers is determined on the basis of their constructive credit for professional education and advanced professional age, if any; and their running mates are assigned accordingly.

Subsection (2) deletes existing language of the Officer Personnel Act of 1947 which extends to officers appointed in the Regular Army and Air Force 4 years of constructive service for promotion purposes in the case of medical officers and 3 years of such service in the case of dental officers. Section 1 of the bill recognizes such service in the amount of 5 years for medical officers who have completed internships and 4 years for dental officers.

Section 5. Increase in special pay for certain medical and dental officers—additional annual cost, $9,878,200

All medical, dental, and veterinary officers of the Armed Forces and the Public Health Service (except those serving as interns) now receive special pay in the amount of $100 per month. This section provides that the special pay provision would be amended as follows:

(1) Except for those serving as military interns, all medical and dental officers of the Army, Navy, Air Force and Public Health Service, who have not completed 2 years of active service would continue to receive special pay in the amount of $100 per month.

(2) All veterinary officers, irrespective of length of service, would continue to receive special pay of $100 per month.

(3) All medical and dental officers of the three services and the Public Health Service who complete 2 years of active service as a medical or dental officer will receive $150 per month of special pay, which amounts to a $50 increase.

(4) All such medical and dental officers who complete 6 years of active service as a medical or dental officer will receive $200 per month, an increase of $100 per month in special pay.

(5) All medical and dental officers who complete 10 years of active service as a medical or dental officer will receive special pay in the amount of $250 per month, which is an increase of $150 per month.

Section 6

The purpose of section 6 would be to prevent medical and dental officers from being deprived of the opportunity of making an election under the Uniformed Services Contingency Option Act of 1953, solely by virtue of the longevity pay credit provided in section 2 of the bill. Under the 1953 legislation officers must exercise their election under the Act prior to the time they have completed 18 years of service for pay purposes. By virtue of the 5 years of constructive service for pay purposes extended to physicians and the 4 years extended to dentists under the bill, officers who had, for example, completed only 16 years of service who had not exercised an election would be deprived of the opportunity, since as a matter of law they would have completed more than 18 years for pay purposes. This provision allows those who would be so affected, 12 months after the effective date of this bill in order to make an election.

Section 7. Effective date of the bill

Section 7 provides that the bill shall become effective the first day of the month following date of enactment.

Recommendations of the Executive Branch

PRESIDENTIAL MESSAGE

The President in his message to the Congress of January 16, 1956, recommended the enactment of legislation providing for increased incentives for medical and dental officers.

Letter from the Department of Defense

Printed below is a copy of the letter from the Department of Defense recommending the enactment of legislation for increased incentives for medical and dental officers. It should be noted that the additional special pay provided for in H. R. 9428 was not contained in the bill as recommended to the Congress.

Office of the Assistant Secretary of Defense,
Washington, D. C., January 6, 1956.

Hon. Richard M. Nixon,
President of the Senate.

Dear Mr. President: There is forwarded herewith a draft of legislation to provide for the procurement of medical and dental officers of the Army, Navy, and Air Force.

This proposal is a part of the Department of Defense legislative program for 1956 and the Bureau of the Budget has advised that it has no objection to the submission of this proposal for the consideration of the Congress. The Office of the Secretary of Defense has assumed active responsibility for this legislation. It is recommended that this proposal be enacted by the Congress.

PURPOSE OF THE LEGISLATION

The purpose of this proposed legislation is to increase the attractiveness of a military career for medical and dental officers to the end that the Medical and Dental Corps of the three military departments will be comprised primarily of career officers. At the present time Regular medical officers on duty with the three military departments constitute less than one-third of the total number of physicians required. Regular dental offices constitute less than one-fourth of the total dentists required. Except for a small number of so-called career reservists the remainder of the Armed Forces' requirement for medical and dental officers is now being filled through the operation of the Doctor Draft Act.

During the last 3 fiscal year 19,985 medical and dental officers entered the military services under the impetus of the Doctor Draft Act. During the same period 22,340 medical and dental officers left the military services and returned to civil life. Moreover, during this same period 1,419 Regular medical and dental officers resigned or otherwise left the services, while only 732 joined the Regular service. This inordinately high rate of turnover is extremely expensive in terms of travel costs, uniform allowances and wasted man-hours. Of even greater importance is the fact that it creates such demoralizing and unsatisfactory conditions of service for the remaining career medical and dental officers that the overall resignation rate for these officers is almost double the procurement rate.

The Doctor Draft Act was modified and extended for an additional 2 years by the 84th Congress. Unless further extended, however, this

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act will expire on July 1, 1957. It is estimated that by the time this act expires no physicians will remain in the manpower pool it has provided except veterans, recent medical graduates, and those who are not acceptable or available for military service. Positive steps must be taken immediately to build peacetime military medical services which are not dependent upon this expensive and admittedly discriminatory type of legislation.

The military mission in time of peace is to prepare for the time when mobilization may be necessary. The responsibility of the Armed Forces to be ready when this time comes is unequivocal. To be ready, each of the services must be suitably maintained. In the maintenance of the Armed Forces, whether in peace or in war, there is no more important resource than the men and women who constitute its personnel. It is self-evident that the health of these men and women must be preserved, and when impaired in the service, restored. That the Congress has already recognized this fact is clear from the provisions of subsection 4 (a) of the Universal Military Training and Service Act, as amended, which provides, in effect, that no persons shall be inducted into the Armed Forces until adequate arrangements have been made for their medical care.

The Department of Defense has made an exhaustive study of the related problems of procuring and retaining career medical and dental personnel. This study has revealed that although there are many factors involved in these problems the major cause of our present situation is the disparity between the incomes of military doctors and civilian doctors. Since 1943 the average annual net income (after office expenses) of civilian physicians has steadily increased until it now far exceeds the income offered by the military services. Based on Department of Commerce and medical economics income statistics, it is estimated that in 1955 the average net income (after office expenses) of a civilian physician is approximately $16,500, compared, for example, to the major lieutenant commander's total income of $9,200. In this connection, civil-service pay scales were recently revised and now provide starting incomes for physicians which are $1,400 to $2,600 higher than the total annual pay the same physicians would receive in uniform upon entry in the Armed Forces. Furthermore, at the present time, the average pay of board certified physicians in the Veterans' Administration is $12,300. The military services are, therefore, in a poor competitive position for physicians both within and without the Government.

As a result of the study referred to above, every possible action is being taken within the Department of Defense to improve the attractiveness of a military career for medical and dental officers. Promotion and assignment policies are constantly studied and have recently been improved to the maximum extent possible under present circumstances. Actions are in progress to establish improved educational programs. The Department of Defense is striving to enhance the prestige of a military career for physicians and to promote inspired professional leadership.

Although the actions referred to above will partially alleviate the critical situation now existing within the military services, the Department of Defense is of the view that the proposed special legislation transmitted herewith is necessary to the overall solution of the prob-

lem. This proposal would, (1) authorize longevity pay credit for the 4 postgraduate years spent in medical and dental schools and for the 1 year spent in medical internship, and (2) authorize the upgrading of officers now on the active list to reflect the 1-year increase of constructive service credit. Enactment of this proposed legislation would provide an immediate pay increase to medical and dental officers of up to $76 per month, depending upon grade and amount of service for pay purposes. It would also equalize the status of the medical and dental officer with his counterpart of similar age in the line.

It is urgently recommended that this proposed legislation be enacted at an early date in view of the critical situation existing within the three military departments.

COST AND BUDGET DATA

In the event that this proposed legislation is enacted, it is estimated that an increased cost of $8,400,000 will result for the Department of Defense for the first year after enactment.

Sincerely yours,

RICHARD A. BUDDEKE,
Director, Legislative Programs.

CHANGES IN EXISTING LAW

In compliance with subsection 4 of rule XXIX of the Standing Rules of the Senate, there is herewith printed in parallel columns the text of provisions of existing law which would be repealed or amended by the various provisions of the bill:

EXISTING LAW	THE BILL
Section 201 of the Army-Navy-Public Health Service Medical Officer Procurement Act of 1947 (61 Stat. 777):	Section 201 of the Army-Navy-Public Health Service Medical Officer Procurement Act of 1947 (61 Stat. 777) is amended to read as follows:
"SEC. 201. Subject to any limitation of the commissioned strength of the Army and Navy prescribed by law the President, by and with the advice and consent of the Senate, is hereby authorized to make original appointments to permanent commissioned grades with rank not above that of colonel in the Medical and Dental Corps of the Army, and not above that of captain in the Medical and Dental Corps of the Navy in such numbers as the needs of the services may require. Such appointments shall be made only from qualified civilian doctors of medicine and dentists who are citizens of the	"SEC. 201. (a) Subject to any limitation on the commissioned strength of the Army, Navy, and Air Force prescribed by law, the President, by and with the advice and consent of the Senate, may make appointments in permament grades of first leiutenant through colonel in the Medical and Dental Corps of the Regular Army, lieutenant (junior grade) through captain in the Medical and Dental Corps of the Regular Navy, and first lieutenant through colonel for officers appointed with a view to a designation as medical officers or dental officers in the Regular Air Force, in such num-

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United States, and who shall have such other qualifications as the Secretary of War and the Secretary of the Navy may prescribe for their respective services. The doctors of medicine and dentists so appointed in the Navy shall be carried as additional numbers in rank, but shall not increase the authorized numbers of commissioned officers of the Medical and Dental Corps of the Regular Navy. The doctors of medicine and dentists so appointed in the Army shall be credited for purposes of promotion with the minimum number of years of service now or hereafter required for promotion of officers of the Medical and Dental Corps to the grade in which appointed."	bers as the needs of the services may require. Such appointments shall be made only from qualified doctors of medicine and doctors of dentistry who are citizens of the United States and who have such other qualifications as the Secretary concerned may prescribe for his service. "(b) The doctors of medicine and doctors of dentistry appointed under this Act shall be credited for purposes of determining lineal position, permanent grade, position on a promotion list, seniority in permanent grade, and eligibility for promotion with the amount of service prescribed by the Secretary concerned, but not less than the minimum prescribed below. A doctor of medicine or doctor of dentistry appointed under this Act upon graduation from medical or dental school may not be credited with less than four years' service. A doctor of medicine appointed under this Act who has completed a one-year internship, or the equivalent thereof, may not be credited with less than five years' service. "(c) The Secretaries of the Army, Navy, and Air Force may convene boards of officers to review the records and compute the service of each officer of the Medical Corps or the Dental Corps of the Army or the Navy, and each

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medical or dental officer of the Air Force, appointed under any provision of law before the effective date of this amendatory Act, including those Reserve or temporary officers who are on active duty on the effective date of this amendatory Act or who enter on active duty after that date, in order to adjust the service credited to each such officer to reflect the service authorized to be credited to officers appointed under this Act. When that adjustment is made, such officers shall be given precedence for promotion purposes or advanced to a lineal position in accordance with their adjusted dates of rank, except that no officer of the Navy shall be given an adjusted date of rank in the grade of captain which is earlier than July 1, 1955. All officers of the Navy with the adjusted date of rank of July 1, 1955, in the grade of captain shall retain the precedence among themselves that they held on the effective date of this amendatory Act and shall be junior to all other officers assigned that date of rank. If, as a result of readjustment of service credit under this section—

"(1) an officer of the Army or the Air Force is made eligible for promotion, he shall be considered for promotion by the next selection board considering officers of his grade and category; and

"(2) an officer of the Navy attains lineal position equivalent to an officer who is serving in the next higher grade, or who is on a promotion list to that grade, he may be promoted thereto on the recommendation of a board of officers convened under this subsection, and, except as otherwise provided in this subsection, may be as-

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signed a lineal position in the higher grade appropriate to his adjusted service credit.

"(d) Each officer of the Medical Corps or the Dental Corps of the Army and each officer in the Air Force appointed with a view to designation as a medical or dental officer, who is appointed as a temporary officer under the provisions of subsection 515 (e) of the Officer Personnel Act of 1947 (61 Stat. 907) after the effective date of this amendatory Act, shall upon entering on active duty be credited with the amount of service authorized by subsection (b) of this section to be credited to officers appointed under this Act.

"(e) Notwithstanding any other provision of law, including those relating to selection for promotion, a doctor of medicine or a doctor of dentistry who is appointed under this Act or any other provision of law may be temporarily promoted to the grade of captain in the Army or the Air Force, or lieutenant in the Navy, as the case may be, at any time after one year after completion of medical or dental school.

"(f) An officer of the Medical Corps or Dental Corps of the Navy appointed in the grade of lieutenant (junior grade) shall be assigned as his running mate the junior line officer in the grade of lieutenant (junior grade) with the same date of rank, or if there is none, the junior line officer of that grade with the next earlier date of rank."

Section 202 of the Army-Navy-Public Health Service Medical Officer Procurement Act of 1947 (61 Stat. 777):

"SEC. 202. The Secretary of War and the Secretary of the Navy are authorized to prescribe from time to time such regulations

Section 202 of the Army-Navy-Public Health Service Medical Officer Procurement Act of 1947 (61 Stat. 777) is amended to read as follows:

"SEC. 202. The Secretaries of the Army, Navy, and Air Force may from time to time prescribe regulations necessary for the ad-

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as may be necessary for the administration of this title within their respective departments."

Section 202 (a) (6) of the Career Compansation Act of 1949 (63 Stat. 807):

"(6) all service which, under any provision of law in effect on the effective date of this section is authorized to be credited for the purpose of computing longevity pay."

The second sentence of section 506 (c): "In addition to the foregoing and for the purposes hereinabove specified, each person appointed and commissioned an officer of the Medical Corps of the Regular Army shall, at time of appointment, be credited with an amount of service equal to four years; each person appointed and commissioned an officer of the Dental Corps, each person appointed a Chaplain of the Regular Army, and each person appointed and commissioned an officer of the Regular Army with a view to assignment in the Judge Advocate General's Department shall, at time of appointment, be credited with an amount of service equal to three years; each person appointed and commissioned an officer of the Veterinary Corps shall, at time of appointment, be credited with an amount of service equal to two years; and each person appointed and commissioned an officer of the Medical Service Corps who at the time of appointment holds a degree of doctor of philosophy or comparable degree recognized by the Surgeon General in a science allied to medicine may, subject to regulations as prescribed by the Secretary of War, be credited at the time of appointment with an amount of service equal to three years."

"SEC. 506. (e) No person shall be initially appointed in the Regu-

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ministration of this title within their respective departments."

SEC. 2. Section 202 (a) (6) of the Career Compensation Act of 1949 (63 Stat. 807) is amended by striking out the period at the end of clause 6 and inserting "; and" in lieu thereof.

(3) By striking out the following words in the second sentence of section 506 (c): "each person appointed and commissioned an officer of the Medical Corps of the Regular Army shall, at time of appointment, be credited with an amount of service equal to four years; each person appointed and commissioned an officer of the Dental Corps,".

(4) By striking out the following words in section 506 (e): "the

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lar Army in any commissioned officer grade under the provisions of this section when the length of time from date of birth to date of appointment exceeds: For all persons except those hereinafter specifically mentioned, twenty-seven years; for persons appointed in the Medical Corps, the Dental Corps, and the Veterinary Corps and persons appointed with view to assignment in the Judge Advocate General's Department, thirty-two years; for persons appointed in the Medical Service Corps, thirty years; for persons appointed as chaplains, thirty-four years: *Provided*, That for any person, the number of years from date of birth to date of appointment hereinabove specified shall, respectively, be increased by the number of years, months, and days of active Federal service performed by such person after attaining the age of twenty-one years as a commissioned officer in the Army of the United States or any component thereof subsequent to December 31, 1947, and prior to such appointment, but not by more than five years: *And provided further*, That until June 30, 1953, the Secretary of War may, in his discretion, waive such maximum age limitations for any person who served in the armed forces of the United States prior to September 2, 1945.

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Medical Corps, the Dental Corps, and".

Section 202 (a) of the Career Compensation Act of 1949 (63 Stat. 807) is amended by adding the following new clause at the end thereof:

"(7) For each officer of the Medical Corps or the Dental Corps of the Army or Navy, each officer of the Air Force designated as a medical or dental officer, and each officer of the Public Health Service commissioned as a medical or dental officer, four years; and

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The Officer Personnel Act of 1947 (61 Stat. 795):

"SEC. 211. (e) (1) Lieutenants (junior grade) in a staff corps, appointed subsequent to the approval of this Act pursuant to any authority other than the Act of April 18, 1946 (Public Law 347, Seventy-ninth Congress), with date of rank in that grade in the same calendar year shall, in order of their lineal rank and following December 31 of that year, be assigned running mates among line lieutenants (junior grade) with dates of rank in the same calendar year, if of other than the Medical Corps, and in the preceding calendar year if of the Medical Corps,

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for each such medical officer who has completed one year of medical internship or the equivalent thereof, one additional year; except that the service authorized to be credited to an officer under this clause shall be reduced by the amount of any service otherwise credited under this section which covers any part of the period of the officer's professional education or internship; and, notwithstanding any other provision of law, the service credit authorized by this clause shall not—

(A) be included in establishing eligibility for voluntary or involuntary retirement or separation from the service, under any provision of law;

(B) increase the retired or retirement pay of a person who became entitled to such pay prior to May 1, 1956; or

(C) increase the retired pay of a person who becomes entitled to such pay under Title III of the Army and Air Force Vitalization and Retirement Equalization Act of 1948 (62 Stat. 1087), on or after May 1, 1956, but who does not perform active duty after May 1, 1956."

SEC. 4. The Officer Personnel Act of 1947 (61 Stat. 795) is amended as follows:

(1) By inserting in the first sentence of paragraph (1) of section 211(e) and in the first sentence of paragraph (3) of section 311(d), after the words "a staff corps", the words "other than the Medical and Dental Corps", and deleting in those sentences the words "if of other than the Medical Corps, and in the preceding calendar year if of the Medical Corps,".

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in the manner herein prescribed. Each such staff officer shall be assigned as his running mate the line officer whose numerical position in the order of lineal rank among the line lieutenants (junior grade) above described is equal, or nearest equal, to the product of the numerical position of the staff officer in his order of lineal rank in his corps and a fraction whose numerator is the number of such line officers and whose denominator is the number of such staff officers. When there is but one such staff officer, the running mate shall be the line officer whose lineal rank is nearest the middle of the line officers concerned: *Provided*, That in any staff corps where officers may be originally appointed to the grade of lieutenant (junior grade) or ensign, all staff officers of that corps with dates of rank as lieutenants (junior grade) in the same calendar year shall, for the purpose of assignment of running mates, be regarded as having lineal rank in such order as may be recommended in the approved report of a board of officers convened for that purpose; such boards shall be convened as soon as practicable after December 31 of each year, shall be composed of officers of the corps concerned, and their recommendations when approved by the Secretary of the Navy shall be conclusive."

"SEC. 311. (d) (3) Lieutenants (junior grade) in a staff corps, appointed subsequent to the enactment of this Act pursuant to any authority other than the Act of April 18, 1946 (Public Law 247, Seventy-ninth Congress), with dates of rank in that grade in the same calendar year shall, in order of their lineal rank and following December 31 of that year, be assigned running mates among line lieutenants (junior grade) with

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dates of rank in the same calendar year if of other than the Medical Corps, and in the preceding calendar year if of the Medical Corps, in the manner herein prescribed. Each such staff officer shall be assigned as his running mate the line officer whose numerical position in the order of lineal rank among the line lieutenants (junior grade) above described is equal, or nearest equal, to the product of the numerical position of the staff officer in his order of lineal rank in his corps and a fraction whose numerator is the number of such line officers and whose denominator is the number of such staff officers. When there is but one such staff officer, the running mate shall be the line officer whose lineal rank is nearest the middle of the line officers concerned: *Provided*, That in any staff corps where officers may be orginally appointed to the grade of lieutenant (junior grade) or ensign, all staff officers of that corps with dates of rank as lieutenants (junior grade) in the same calendar year shall, for the purpose of assignment of running mates, be regarded as having lineal rank in such order as may be recommended in the approved report of a board of officers convened for that purpose; such boards shall be convened as soon as practicable after December 31 of each year, shall be composed of officers of the corps concerned, and their recommendations when approved by the Secretary of the Navy shall be conclusive."

Section 203 (b) of the Career Compensation Act of 1949 as amended (37 U. S. C. 234 (b)):

"SEC. 203. (b) In addition to any pay, allowances, special or incentive pays that they are otherwise entitled to receive, commissioned officers as defined in sub-

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SEC. 5. (a) Section 203 (b) of the Career Compensation Act of 1949 as amended (37 U. S. C. 234 (b)), is further amended by striking out the words "$100 per month for each month of active service:" and inserting a dash and the following in lieu thereof:

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EXISTING LAW

sections (a) and (c) of this section shall be entitled to receive special pay at the rate of $100 per month for each month of active service: *Provided*, That such sum shall not be included in computing the amount of increase in pay authorized by any other provision of this Act or in computing retired pay, disability retirement pay, or any severance pay: *Provided further*, That the commissioned officers described in subsection (a) (4) of this section who are called or ordered to active duty without their consent shall not be entitled to receive the pay provided by this subsection for any period prior to September 9, 1950: *And provided further*, That no commissioned officer as described in subsection (a) of this section shall, while he is serving as a medical or dental intern, be entitled to receive the special pay of $100 per month as is provided in this subsection."

THE BILL

"(1) $100 per month for each month of active service for those medical and dental officers covered by subsection (a) who have not completed two years of active service in a category covered by that subsection;

"(2) $100 per month for each month of active service for those veterinary officers covered by subsection (c);

"(3) $150 per month for each month of active service for those medical and dental officers covered by subsection (a) who have completed at least two years of active service in a category covered by subsection (a);

"(4) $200 per month for each month of active service for those medical and dental officers covered by subsection (a) who have completed at least six years of active service in a category covered by subsection (a); and

"(5) $250 per month for each month of active service for those medical and dental officers covered by subsection (a) who have completed at least ten years of active service in a category covered by subsection (a):"

(b) Section 203 (b) of such act is further amended by striking out the following words in the third proviso: "of $100 per month as is".

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Calendar No. 1777

84TH CONGRESS, 2d Session | SENATE | REPORT No. 1757

MORTGAGE INSURANCE FOR DISASTER VICTIMS

APRIL 16 (legislative day, APRIL 9), 1956.—Ordered to be printed

Mr. SPARKMAN, from the Committee on Banking and Currency, submitted the following

REPORT

[To accompany S. 2854]

The Committee on Banking and Currency, to whom was referred the bill (S. 2854) to amend the National Housing Act, as amended, having considered the same, report favorably thereon with an amendment and recommends that the bill as amended do pass.

GENERAL STATEMENT

This bill would amend section 203 (h) of the National Housing Act, as amended, which authorizes the FHA to insure a mortgage for an individual whose home (regardless of whether he owned or rented) was damaged or destroyed by disaster. Under present law, the FHA can insure such a mortgage up to 100 percent of the appraised value of the property and up to $7,000. This bill would increase the dollar limit from $7,000 to $12,000.

The average commitment by the FHA to insure housing mortgages under other section 203 mortgage insurance provisions is at present approximately $10,000. Therefore, the $12,000 limit which this bill authorizes would provide for insurance of mortgages in amounts adequate to cover the costs of building moderate-priced housing in almost every locality.

Although section 203 (h) provides 100-percent financing for disaster housing, and therefore requires no downpayment other than closing costs, the prospective home buyer under this section is subject to the same mortgage credit analysis as under the regular section 203 provisions in that his income must be sufficient to support the necessary monthly payments. This is a protection to the prospective home buyer, as well as to FHA, in that it does not permit him to become financially overburdened.

The Housing and Home Finance Agency and the Bureau of the Budget have raised no objection to increasing the maximum amount

of mortgages under section 203 (h) from $7,000 to $12,000 as proposed by the bill.

AMENDMENT

Section 2 of the bill as originally introduced increased the FHA general mortgage insurance authorization by $60 million to make provision for the increase in dollar limits of mortgages insured pursuant to this bill. The committee deleted section 2 after being assured by HHFA that the present general mortgage insurance authorization is sufficient for the current fiscal year.

The committee recommends approval of S. 2854, as amended.

Changes in Existing Law

In compliance with subsection (4) of rule XXIX of the Standing Rules of the Senate, changes in existing law made by the bill, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italics, existing law in which no change is proposed is shown in roman):

National Housing Act, as Amended

* * * * * * *

Sec. 203. (h) Notwithstanding any other provision of this section, the Commissioner is authorized to insure any mortgage which involves a principal obligation not in excess of [$7,000] *$12,000* and not in excess of 100 per centum of the appraised value of a property upon which there is located a dwelling designed principally for a single-family residence, where the mortgagor is the owner and occupant and establishes (to the satisfaction of the Commissioner) that his home which he occupied as an owner or as a tenant was destroyed or damaged to such an extent that reconstruction is required as a result of a flood, fire, hurricane, earthquake, storm, or other catastrophe which the President, pursuant to section 2 (a) of the Act entitled "An Act to authorize Federal assistance to States and local governments in major disasters and for other purposes" (Public Law 875, Eighty-first Congress, approved September 30, 1950), as amended, has determined to be a major disaster.

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UNIVERSITY OF MICHIGAN LIBRARIES

Calendar No. 1778

84TH CONGRESS, 2d Session | SENATE | REPORT No. 1758

SHELTER FOR DISASTER VICTIMS

APRIL 16 (legislative day, APRIL 9), 1956.—Ordered to be printed

Mr. SPARKMAN, from the Committee on Banking and Currency, submitted the following

REPORT

[To accompany S. 2855]

The Committee on Banking and Currency, to whom was referred the bill (S. 2855) to provide authority to stockpile temporary housing for disaster relief, and for other purposes, having considered the same, report favorably thereon with amendments and recommend that the bill as amended do pass.

GENERAL STATEMENT

This bill, as amended, (1) provides authority for the Commissioner of the Public Housing Administration to enter into contracts on a standby or emergency basis for emergency production and delivery of housing and equipment into a location declared by the President to be a major disaster area, and (2) authorizes the Commissioner to use $5 million of funds which he can borrow from the Treasury under section 20 of the United States Housing Act of 1937 (which makes loan funds available for low-rent public housing) with which to purchase the emergency housing and equipment.

Annually, in one form or another, the Nation is subjected to the violent forces of nature which cause millions of dollars of damage to property and untold misery, exposure, and death to many of the Nation's families. During 1955 alone, the United States suffered two of the worst flood disasters recorded in our history. From time to time the Congress, taking into consideration the needs of the victims of these disasters, immediately following the devastation, has enacted legislation to provide funds and other assistance for these victims.

In numerous instances, however, the assistance provided does not reach the victim at the time the need is the greatest. This is especially true of housing. Existing law authorizes the various Federal housing agencies to provide temporary or emergency housing in disaster areas. However, the difficulties of locating and preparing sites and locating,

moving, and erecting housing in the disaster areas are very time consuming.

The bill, as amended, is designed to provide a flexible plan under which housing can be made available to disaster victims as early as possible after the need occurs. The agency contemplates that under the authority granted by this bill, contracts could be entered into on a standby or emergency basis for emergency production and delivery of approximately 2,000 movable housing units, consisting of 1, 2 qnd 3 bedroom trailers, which would be available for occupancy in the disaster area within a minimum period of time after the President declares the area to be a disaster area.

The bill authorizes the Commissioner of the Public Housing Administration to use up to $5 million of funds now available for the low-rent public housing program. The Public Housing Administration would be required to repay the Treasury from receipts under the bill, if any, and reimbursements received pursuant to the provisions of the disaster assistance act (Public Law 875, 81st Cong., approved September 30, 1950). The Secretary of the Treasury is authorized to forgive the difference between such receipts and reimbursements, and the amount expended by the Public Housing Administration for the purpose of this bill.

The report from the Administrator, HHFA, dated April 11, 1956, is as follows:

HOUSING AND HOME FINANCE AGENCY,
OFFICE OF THE ADMINISTRATOR,
Washington 25, D. C., April 11, 1956.

Re S. 2855, 84th Congress.

Hon. JOHN J. SPARKMAN,
Chairman, Subcommittee on Housing of the
Senate Banking and Currency Committee.
United States Senate, Washington 25, D. C.

DEAR SENATOR SPARKMAN: This in response to the request by your subcommittee for views of this Agency with respect to S. 2855, as amended, a bill to authorize the Commissioner of Public Housing to enter into contracts on a standby or emergency basis for housing to provide shelter for disaster victims, and for other purposes. The amendments follow the recommendations made by Public Housing Commissioner Charles E. Slusser in his letter to you of March 14 in which I concurred.

Under the provisions of the bill the Public Housing Commissioner would be authorized to enter into contracts on a standby or emergency basis, without regard to the provisions of section 3709 of the Revised Statutes, for emergency production and delivery of housing and equipment in the event of a major disaster declared by the President under the Federal Disaster Assistance Act. The legislation would authorize the Commissioner to make such housing and equipment available to local public agencies, the American Red Cross, or other nonprofit relief organizations, without charge to provide shelter for victims of any such disaster. The Commissioner would also be authorized and directed to prepare procedures for emergency mobilization of local services and property to provide emergency shelter including the preparation of sites for emergency dwellings.

Not to exceed $5 million would be provided to carry out the bill by authorizing the Public Housing Commissioner to use funds made

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available under section 20 of the United States Housing Act of 1937, as amended. All receipts of the Public Housing Administration under the bill and any reimbursements to the Administration pursuant to the provisions of the Disaster Relief Act must be applied to repayment of funds borrowed from the Treasury for the purposes of the bill under section 20. The Secretary of the Treasury would be authorized to credit as a repayment an amount equal to the amount certified by the Public Housing Commissioner as having been expended under the bill and which the Public Housing Administration has not repaid out of such receipts or reimbursements.

This proposed legislation would enable the Public Housing Administration to prepare, in advance, specifications for standardized emergency housing and equipment and to apprise manufacturers of these specifications and do everything feasible (either on an advisory noncontractual basis, if possible, or on a contractual basis) to prepare manufacturers and dealers for emergency requests for such equipment when a major disaster occurs. In this way, costs would be lowered through preparation of standard specifications for unelaborate, safe, trailers and furnishings, and through making available a greater number of manufacturers ready to produce the units on an emergency basis. Time would be saved in procurement by having the manufacturers informed in advance of the type of equipment that would be required; and time would be saved at the site by standardization of size, connections, etc., so that the trailers could be hooked into sanitary and utility facilities without delay.

Time would also be saved at another critical point through advance preparation and promulgation of procedures advising officials and agencies concerned on how to mobilize local services and property in the event of a disaster. This should be particularly helpful in connection with the selection and preparation of sites to receive the trailers, which past experience has shown to be a source of considerable delay and trouble.

We assume that the bill deliberately omits authority for acquisition of sites or operation of the housing by the Federal Government because it is the intention of the legislation that the sites and services be provided by the State and local governments, the American Red Cross, or other nonprofit relief organizations. The role of the Federal Government would be limited to furnishing the trailers to local agencies and relief organizations on a loan, sale, lease, or donation basis.

Although the bill is not intended to authorize a "stockpile" program, it does not establish any time for disposal of the trailers after use in a disaster, and the legislation would permit retention of the trailers for as long as it is deemed desirable, and would, of course, permit their utilization by other Government agencies pursuant to the provisions of the Federal Property and Services Act. The bill also clearly authorizes the delivery and utilization of trailers which are not purchased under the bill but which may be under the jurisdiction of the Public Housing Administration and available for such use, or which may be excess to the needs of other Government agencies and are made available to the PHA under the Federal Property and Services Act. Disposal would also be accomplished under that act.

We believe that the $5 million authorization would be adequate to purchase up to approximately 2,000 trailers and perform the incidental functions set forth in the bill. Although the funds made

available under section 20 of the United States Housing Act are loan funds (ordinarily used by local housing authorities for development of low-rent housing projects), it is assumed that expenditure of these funds pursuant to the proposed bill would be subject to the budget controls of the Bureau of the Budget and the audit by the General Accounting Office which are generally applicable to appropriated fund expenditures. The utilization of the section 20 loan fund is, we believe, the most feasible way of making funds available to meet intermittent emergencies, such as flood and storm disasters, contemplated by the bill.

We have not received the report of the Bureau of the Budget as yet and shall advise you further as soon as it is received.

Sincerely yours,

ALBERT M. COLE, *Administrator.*

A report from the Administrator of the Federal Civil Defense Administration, dated April 6, 1956, is as follows:

FEDERAL CIVIL DEFENSE ADMINISTRATION,
OFFICE OF THE ADMINISTRATOR,
Battle Creek, Mich., April 6, 1956.

Hon. J. W. FULBRIGHT,
Chairman, Committee on Banking and Currency,
United States Senate, Washington 25, D. C.

DEAR MR. CHAIRMAN: This is in reply to the request of your committee for the view of the Federal Civil Defense Administration with respect to S. 2855, a bill to provide authority to stockpile temporary housing for disaster relief, and for other purposes.

The purpose of the bill is to authorize the Housing and Home Finance Administrator to establish and maintain a stockpile of 1,000 temporary housing units of a mobile or portable character at suitable locations throughout the Nation to be available for immediate use in the event of a major natural disaster.

The bill contemplates using for this purpose temporary housing provided under the Defense Housing and Community Facilities and Services Act of 1951, which remain available under the jurisdiction of the Administrator of the Housing and Home Finance Agency. Additional units needed to maintain the stockpile of 1,000 units could be acquired by the Housing and Home Finance Agency Administrator in such a manner as he deems advisable. Rental charges to disaster victims could not exceed a rate sufficient to cover the cost of operating and maintaining the unit occupied, and a proportionate share of common operating and maintenance costs of the project. No rent would be required of any victim during the effective period of a certificate issued by the American National Red Cross to the effect that the victim is financially unable to pay rent or other charges for housing.

The Administrator could utilize the services of any other Federal agency in carrying out his functions under this proposal with its consent, or could utilize the services of any other public or private organization, and provide reasonable compensation for such services. Sums necessary to carry out the provisions of the bill would be authorized to be appropriated.

This Administration supports and endorses appropriate measures designed to increase the effectiveness of Federal assistance during major natural disasters under the provisions of Public Law 875, 81st

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Congress, as amended. The Federal Civil Defense Administration is charged with the administration and coordination of Federal disaster assistance under Public Law 875, 81st Congress, and Executive Order 10427. In the conduct of the program of disaster assistance, full utilization is made of existing facilities, particularly trailers and other mobile units under the jurisdiction of the Housing and Home Finance Agency. Together with the usual housing facilities which may be provided from areas contiguous to or near scenes of major natural disasters, these resources have ordinarily been able to supply the temporary housing needs of disaster victims during a major natural disaster.

For the assistance of the committee in its consideration of the bill, it has been the experience of this Administration that mobile housing units in the form of trailers are the most successful unit for use in major disaster relief. The reason for this is that a trailer is an easily transported temporary unit, is a self contained unit in itself, complete with plumbing and mechanical equipment installed, and needs be only connected to service mains to be ready for occupancy by the disaster victims. Surplus trailer units under the jurisdiction of the Housing and Home Finance Agency have been used with excellent results in the natural disaster assistance program of the Federal Government.

Since the use of trailer housing units has been so successful for disaster relief purposes, the committee may wish to give consideration to statutory authorization to the Housing and Home Finance Administrator to acquire trailer units for the purposes of S. 2855. For the most effective administration of disaster relief, the Federal Civil Defense Administration would recommend to the committee that consideration be given to an authorization to purchase trailers on the open market from manufacturers or dealers, upon the declaration of a major disaster. The trailer units to be purchased by the Housing and Home Finance Administrator only after a finding by the Federal Civil Defense Administrator that their purchase is necessary for use in a major disaster area.

As an alternative to the storage of these units for major disaster relief assistance purposes, the committee may find it more desirable to authorize the purchase of trailers from manufacturers or dealers, and after the trailers have served their purpose, to sell such trailers at the best available price and to deposit the proceeds in a revolving fund to be utilized for this purpose when again needed. Should such an authorization be adopted, it is our view that complicated and expensive storage and maintenance problems would be obviated, with a real advantage to the Government, while still maintaining the capability of furnishing temporary housing units to areas in need thereof as a result of a major natural disaster.

Under the provisions of Public Law 875, 81st Congress, as amended by Public Law 107, 82d Congress, this Administration is authorized to: "provide temporary housing or other emergency shelter for families who, as the result of such major disaster, require temporary housing or other emergency shelter."

Pursuant to this authority, the Federal Civil Defense Administration, in cooperation with the Housing and Home Finance Agency and other Federal agencies having vacant and available housing facilities, and in cooperation with the State and local governments and the

American National Red Cross, leaves no avenue unexplored to provide temporary housing for victims of major disasters.

However, authority along the lines of that contemplated by S. 2855, would appear to be useful supplemental authorization for the provision of temporary housing or shelter for families in need of such shelter as the result of a major natural disaster. Accordingly, subject to the foregoing comments, this Administration would recommend the enactment of a measure along the lines of S. 2855, to provide for the ready availability of tempoarary housing for disaster relief purposes.

Advice has been received from the Bureau of the Budget that there would be no objection to the submission of this report.

Sincerely,

VAL PETERSON.

AMENDMENTS

As introduced, S. 2855 would have provided authority to stockpile 1,000 units of temporary housing at suitable locations throughout the Nation to be available for immediate use in the event of major disaster. The many problems and costs created by maintenance, depreciation, and transportation of such housing from storage points to the disaster areas and eventual return to the storage points, caused the committee to amend the bill. As amended, the bill would permit emergency production and delivery of housing and equipment into disaster areas. The committee feels that S. 2855, as amended, eliminates many of the problems and costs found in the bill as introduced, and offers the most practicable approach and the most flexible plan for providing disaster shelter at the time such shelter is needed.

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Calendar No. 1779

84TH CONGRESS, 2d Session | SENATE | REPORT No. 1759

RENT-FREE ACCOMMODATIONS IN LOW-RENT HOUSING PROJECTS FOR DISASTER VICTIMS

APRIL 16 (legislative day, APRIL 9), 1956.—Ordered to be printed

Mr. SPARKMAN, from the Committee on Banking and Currency, submitted the following

REPORT

[To accompany S. 2859]

The Committee on Banking and Currency, to whom was referred the bill (S. 2859) to provide rent-free accommodations in certain federally aided housing for needy victims of major disasters and other purposes, having considered the same, report favorably thereon with an amendment and recommend that the bill as amended do pass.

GENERAL STATEMENT

This bill amends title II of the act of June 28, 1950 (54 Stat. 676), as amended, to permit victims of a major disaster, as declared by the President, as well as persons engaged in national-defense activities, to be considered for accommodations in low-rent public housing projects without respect to (*a*) any of the eligibility or preference provisions of the United States Housing Act of 1937, as amended, and (*b*) any advance guaranty of rent or determination as to the rent-paying ability of a disaster victim as a condition of admission to such project.

The bill further authorizes the Public Housing Administration to enter into contracts with local agencies for advance payment or reimbursement for low-rent housing furnished to disaster victims. An expenditure not to exceed $500,000 from funds made available to the agency for low-rent public housing is authorized for this purpose. Such housing may be furnished rent-free to disaster victims during the disaster period as determined by the President.

Under the present eligibility or preference provisions of the United States Housing Act of 1937, disaster victims may be precluded from obtaining shelter in low-rent housing projects, even though vacancies may exist in such projects. This bill suspends the eligibility or

preference provisions of that act in order that low-rent housing projects may be occupied by disaster victims.

In addition, a disaster victim would be permitted to occupy a low-rent housing unit without any advance guaranty of rent or determination as to his rent-paying ability as a condition of admission to such project.

The bill would also permit the Federal Government to bear the expense of the emergency shelter furnished to needy victims of disaster in such low-rent housing projects. To meet the expense of providing rent-free accommodations, the Commissioner of PHA is authorized to use up to $500,000 of the funds now available for the low-rent public housing program. The Public Housing Administrator would be required to repay the Treasury from receipts under the bill, if any, and reimbursements received pursuant to the provisions of the disaster assistance act (Public Law 875, 81st Cong., approved September 30, 1950). The Secretary of the Treasury is authorized to forgive the difference between such receipts and reimbursements, and the amount expended by PHA for the purpose of this bill.

The Administrator of the Federal Civil Defense Administration and the Administrator of the Housing and Home Finance Agency report on S. 2859 as follows:

OFFICE OF THE ADMINISTRATOR,
FEDERAL CIVIL DEFENSE ADMINISTRATION,
NATIONAL OFFICE,
Battle Creek, Mich., April 6, 1956.

Hon. J. W. FULBRIGHT,
Chairman, Committee on Banking and Currency,
United States Senate, Washington 25, D. C.

DEAR MR. CHAIRMAN: This is in reply to your request for the views of the Federal Civil Defense Administration on S. 2859, a bill to provide rent-free accommodations in certain federally aided housing for needy victims of major natural disasters, and for other purposes.

The Federal Civil Defense Administration, under Public Law 875, 81st Congress, as amended, and Executive Order 10427, is charged with the coordination of the disaster-assistance program of the Federal Government in supplementing the efforts of State and local government to alleviate suffering and to reduce the effects of damage caused by major natural disasters.

This Administration supports and endorses appropriate measures designed to increase the effectiveness of aid to disaster-stricken communities and victims thereof.

Under Public Law 875, 81st Congress, as amended by Public Law 107, 82d Congress, the Federal Civil Defense Administration is authorized to provide temporary housing or other emergency shelter for families who, as the result of such major disaster, require such temporary housing or other emergency shelter. Pursuant to this authority, the Federal Civil Defense Administration, in cooperation with the Housing and Home Finance Agency and other Federal agencies having vacant and available housing facilities, and in cooperation with the State and local governments and the American National Red Cross, leaves no avenue unexplored to provide temporary housing for victims of major disasters.

In the conduct of this program, we have no information which would lead us to believe that the collection of unconscionable rents

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has been made, nor that rents collected from disaster victims were of such a nature that it would tend to leave such persons in financial straits or cause them undue hardship under the circumstances.

The bill, if enacted, would authorize and direct that needy disaster victims be permitted to occupy, rent free, federally, State, or locally controlled housing accommodations constructed or acquired through Federal financial aid. Since statutory or contractual requirements relating to such accommodations may perhaps prohibit occupancy of housing of this type by certain disaster victims, the bill would possibly add to the temporary housing capacity of a disaster stricken area for needy persons deprived of their homes in a major disaster. The Federal Civil Defense Administration would therefore interpose no objection to the enactment of a measure along the lines of S. 2859.

Advice has been received from the Bureau of the Budget that there would be no objection to the submission of this report.

Sincerely,

VAL PETERSON.

HOUSING AND HOME FINANCE AGENCY,
OFFICE OF THE ADMINISTRATOR,
Washington 25, D. C., April 11, 1956.

Re S. 2859, 84th Congress.

Hon. JOHN J. SPARKMAN,
Chairman, Subcommittee on Housing,
Senate Banking and Currency Committee,
United States Senate, Washington 25, D. C.

DEAR SENATOR SPARKMAN: This is in response to the request by your subcommittee for the view of this Agency with respect to S. 2859, as amended, a bill to provide rent-free accommodations in certain federally aided housing to needy victims of major disasters, and for other purposes.

Section 1 of the bill follows the recommendations of Public Housing Commissioner Charles E. Slusser in previous correspondence with your subcommittee in which I concurred. It amends title II of the act of June 28, 1940 (Public Law 671, 76th Cong.), as amended, to authorize the waiving of eligiblity and preference provisions applicable to locally owned federally assisted low-rent public housing projects in any locality where the President determines that there is an acute need of housing for victims of a major disaster declared by the President under the Disaster Relief Act. The amendment would authorize this to be done in the same manner as Public Law 671 authorizes the waiving of eligibility and preference provisions for defense workers and military personnel upon a Presidential finding that there is an acute need of housing for such persons in connection with national-defense activities.

The amendment contains a proviso prohibiting the Public Housing Administration from requiring any public housing agency to obtain any advance guaranty of rent or determination as to the rent-paying ability of a disaster victim as a condition of admission to such a project. This proviso should remove any difficulty and delay occasioned by the concern of local housing authorities that they may be violating contractual obligations or jeopardizing the financial solvency of the project by not determining in advance how the expense of housing

the victims would be met. We favor the inclusion of this proviso because we believe that financial arrangements can be worked out by the local housing authorities within a reasonable time after the disaster victims themselves who are financially able to pay rent, or through reimbursement by organizations like the American Red Cross or other national or local relief agencies or through State or local government funds.

I concur in Commissioner Slusser's recommendation that the cost of providing these accommodations not be borne by the Federal Government and, therefore, recommend against enactment of the proposed sections 2 and 3 of the bill which would authorize the Government to bear this expense. We believe that the expense and administration of this type of emergency shelter should be a matter of local responsibility or the responsibility of relief agencies established to administer critical emergency relief such as food, clothing, medical care, etc., and that the role of the Federal Government be limited to making the housing facilities available.

If, however, Congress should desire that the Federal Government bear the expense of providing rent-free accommodations, the provisions of the proposed sections 2 and 3 of the bill will accomplish the purpose in the most feasible manner.

We have not received the report of the Bureau of the Budget as yet and shall advise you further as soon as it is received.

Sincerely yours,

ALBERT M. COLE, *Administrator.*

The committee is aware of the fact that the Housing Agency objects to the Federal Government bearing the expense of providing shelter for needy disaster victims. This financial aid, however, would be limited to defraying the expense of providing shelter to needy victims in low-rent housing units at well-defined areas for specific periods of time as determined by the President. The committee feels that such Federal assistance is not unlike other direct Federal aid provided in times of major disaster and should, therefore, be regarded as a justifiable expense.

AMENDMENT

The bill as originally introduced was amended in order to perfect the language and to clarify legislative intent.

CHANGES IN EXISTING LAW

In compliance with subsection (4) of rule XXIX of the Standing Rules of the Senate, changes in existing law made by the bill, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italics, existing law in which no change is proposed is shown in roman):

THE UNITED STATES HOUSING ACT OF 1937, AS AMENDED

* * * * * * *

SEC. 204. Any contract made for financial assistance under the United States Housing Act of 1937, as amended, may be revised so as to provide that the project involved will be assisted for any of the

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purposes of this title. The Navy or War Department or the Authority, in the administration of any project developed for the purposes of this title, shall fix rentals for persons engaged in national defense activities and their families which will be within their financial reach, and the Authority, in any contract for financial assistance or any lease of such a project, shall require the fixing of such rentals. Projects developed by the Navy or War Department, or developed or assisted by the Authority, for the purposes of this title shall not be subject to the elimination requirements of sections 10 (a) and 11 (a) of said Act, or to any provisions of section 9 of said Act which would require any part of the development cost thereof to be met in any manner other than from funds loaned or furnished by the Authority. Funds expended for the purposes of this title shall be excluded in determining, for the purposes of section 21 (d) of said Act, the amounts expended within each State. Except as otherwise provided herein or as may be inconsistent herewith, all the provisions of title I of said Act shall apply to this title. [During the period when the President determines that in any locality there is an acute need for housing to assure the availability of dwellings for persons engaged in national defense activities, dwellings in a project developed or assisted in said locality which are devoted to the purposes of providing housing for persons engaged in national defense activities shall not be subject to sections 2 (a) and 2 (2) of the United States Housing Act of 1937, as amended, and during such period such projects shall be deemed projects of a low-rent character for the purposes of any of the applicable provisions in title I of said Act.] *During the period when the President determines that in any locality there is an acute need for housing to assure the availability of dwellings for persons engaged in national defense activities or for victims of a major disaster (as defined in section 2 (a) of the Act of September 30, 1950 (64 Stat. 1109), as amended), dwellings in a low-rent project developed, assisted, or operated in said locality pursuant to the United States Housing Act of 1937, as amended, which are devoted to the purposes of providing housing for such persons or victims shall not be subject to any of the eligibility or preference provisions of the United States Housing Act of 1937, as amended, and during such period such projects shall be deemed projects of a low-rent character for the purpose of any of the applicable provisions of the said Act: Provided, That the Authority shall not require any public housing agency to obtain any advance guaranty of rent or determination as to the rent-paying ability of a disaster victim as a condition of admission to such a project.*

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Calendar No. 1780

84TH CONGRESS, 2d Session | SENATE | REPORT No. 1761

INTERIOR DEPARTMENT AND RELATED AGENCIES APPROPRIATION BILL, 1957

APRIL 17, 1956.—Filed under authority of the Senate of APRIL 16 (legislative day, APRIL 9), 1956, and ordered to be printed

Mr. HAYDEN, from the Committee on Appropriations, submitted the following

REPORT

[To accompany H. R. 9390]

The Committee on Appropriations, to whom was referred the bill (H. R. 9390) making appropriations for the Department of the Interior and related agencies for the fiscal year ending June 30, 1957, and for other purposes, report the same to the Senate with various amendments and present herewith information relative to the changes made:

Amount of the bill as passed by the House	$415,963,200
Amount added by the Senate (net)	17,888,200
Total of the bill as reported to the Senate	433,851,400
Amount of budget estimates considered	435,142,300
Amount of 1956 appropriations, including the Supplemental Appropriation Act, 1956; and $9,349,200 for increased pay costs pending in the 2d supplemental appropriation bill, 1956	346,244,827
The bill as reported to the Senate:	
Under the budget estimates	1,290,900
Over appropriations for fiscal year 1956	87,606,573

Summary of the Bill

The committee considered budget estimates totaling $435,142,300 for the agencies of the Department of the Interior, exclusive of the Southeastern Power Administration, the Southwestern Power Administration, the Bonneville Power Administration, and the Bureau of Reclamation; and the following related agencies:

Fine Arts Commission
Federal Coal Mine Safety Board of Review
Department of Agriculture—Forest Service
Indian Claims Commission
Jamestown-Williamsburg-Yorktown Celebration Commission
National Capital Planning Commission
Smithsonian Institution
National Gallery of Art
Franklin Delano Roosevelt Memorial Commission
Woodrow Wilson Centennial Celebration Commission
Virgin Islands Corporation

The estimates considered include $8,350,000 submitted in House Document No. 326, $35,000 submitted in House Document No. 343, and $48,500 submitted in Senate Document No. 108. Excluded from the estimates is $39,400 for the operation of the Squaw Butte Experiment Station that is to be transferred from the Bureau of Land Management to the Department of Agriculture.

The committee recommends appropriations for these agencies totaling $433,581,400. The action of the committee on each appropriation is explained under the appropriate heading in this report.

TITLE I—DEPARTMENT OF THE INTERIOR

Office of the Secretary

RESEARCH IN THE UTILIZATION OF SALINE WATER

Appropriation, 1956	$400,000
Budget estimate, 1957	600,000
House allowance	550,000
Committee recommendation	550,000

The committee recommends that the Senate concur in the House allowance of $550,000 for the saline water research program. This is a reduction of $50,000 below budget estimate. Inasmuch as the pending second supplemental appropriation bill for fiscal year 1956 includes $200,000 for this program it is the view of the committee that the reduction of $50,000 will not have any adverse effect on the program.

The reduction of $50,000 is not to be applied to any specific activity under the program, and it is the opinion of the committee that the Secretary should maintain a competent staff to administer the various research contracts.

UNIVERSITY OF MICHIGAN LIBRARIES

Office of Oil and Gas

SALARIES AND EXPENSES

Appropriation, 1956	$390,000
Pending supplemental for pay costs	15,600
Adjusted total appropriation, 1956	405,600
Budget estimate, 1957	413,800
House allowance	413,800
Committee recommendation	413,800

The committee recommends the allowance of the budget estimate of $413,800 for the Office of Oil and Gas.

This office provides coordination and advice to the Federal Government on all phases of petroleum and gas, and is responsible for the enforcement of the Connally Hot Oil Act.

Office of the Solicitor

SALARIES AND EXPENSES

Appropriation, 1956	$2,525,000
Pending supplemental for pay costs	165,000
Adjusted total appropriation, 1956	2,690,000
Budget estimate, 1957	2,817,000
House allowance	2,800,000
Committee recommendation	2,835,000

The committee recommends the allowance of $2,835,000 for the expenses of the Office of the Solicitor. The House allowed $2,800,000 for this purpose, a reduction of $17,000 below the budget estimate.

The increase of $35,000 recommended by the committee is to enable the Solicitor to revise the Handbook of Indian Federal Law. The revision of this book was requested by the Indian Affairs Subcommittee of the Senate Committee on Interior and Insular Affairs. Funds are recommended for the revision and printing of the book to be distributed under instructions from the Appropriations Committees of the House and Senate and the Committees on Interior and Insular Affairs of the House and Senate.

Office of Minerals Mobilization

SALARIES AND EXPENSES

Appropriation, 1956	$225,000
Budget estimate, 1957	308,000
House allowance	300,000
Committee recommendation	225,000

The committee recommends an appropriation of $225,000 for the Office of Minerals Mobilization, the same amount as provided for the current fiscal year.

It is the view of the committee that the presentation made by the Office of Minerals Mobilization did not justify the increase requested in the budget estimate.

Bureau of Land Management

MANAGEMENT OF LANDS AND RESOURCES

Appropriation, 1956	$13,700,000
Pending supplemental for pay costs	581,700
Adjusted total appropriation, 1956	14,281,700
Budget estimate, 1957 (adjusted)	[1] 18,738,600
House allowance	18,000,000
Committee recommendation	18,738,600

[1] Excludes $39,400 for the operation of the Squaw Butte Experiment Station. This facility is being transferred to the Department of Agriculture, and funds will be carried in the Department of Agriculture appropriation bill for its operation.

The committee recommends the allowance of the adjusted budget estimate of $18,738,600 for the management of lands and resources under the jurisdiction of the Bureau of Land Management. This is an increase of $738,600 over the House allowance.

It is the view of the committee that the increase is needed to allow the bureau to properly administer the 468 million acres of public lands in the United States and Alaska and to carry out its responsibilities for mineral resources on 358 million acres of land under the jurisdiction of other Federal agencies.

It should be noted that the estimated receipts of the Bureau of Land Management for fiscal year 1957 is $236 million, of which $38 million will be paid to States and counties.

The committee has no objection to the proposed transfer of the Squaw Butte Experiment Station to the Department of Agriculture, provided that no Federal employee at the station shall be adversely affected by such a transfer.

CONSTRUCTION

Appropriation, 1956	$2,300,000
Budget estimate, 1957	4,500,000
House allowance	4,500,000
Committee recommendation	4,500,000

The committee recommends that the Senate concur in the House allowance of $4,500,000—the budget estimate—for construction by the Bureau of Land Management.

Of the total $4,460,000 is for the construction of timber access roads on the Oregon and California grant lands. The pending second supplemental appropriation bill for 1956 includes an additional $2 million for this purpose. The committee wishes to make it clear that under language in the bill the total amount appropriated for the construction and operation and maintenance of this access road system is reimbursed from the receipts from the sale of timber that would otherwise be paid to the counties.

The balance of the estimate, $40,000, is for the construction of buildings in Alaska needed in the Bureau's program there.

ADMINISTRATIVE PROVISIONS

The committee recommends the granting of authority to purchase 31 passenger motor vehicles for replacement, the number recommended by the Bureau of the Budget. The House granted authority for the replacement of only 25.

UNIVERSITY OF MICHIGAN LIBRARIES

Bureau of Indian Affairs

EDUCATION AND WELFARE SERVICES

Appropriation, 1956	$41,764,995
Pending supplemental for pay costs	1,350,000
Adjusted total appropriation, 1956	43,114,995
Budget estimate, 1957	50,700,000
House allowance	50,700,000
Committee recommendation	50,720,000

The committee recommends the allowance of $50,720,000 for the education and welfare services of the Bureau of Indian Affairs. The increase of $20,000 over the budget estimate is for higher education. It is the intent of the committee that the total increase shall be used for the purpose of aiding deserving Indians attending school above the high-school level.

The following tabulation sets out the distribution to the activities within the appropriation:

Activities	Adjusted appropriation	Budget estimate, 1957; and House allowance	Committee recommendation
1. Educational assistance, facilities, and services	$37,888,395	$42,600,000	$42,620,000
2. Welfare and guidance services	3,790,500	3,792,000	3,792,000
3. Relocation services	1,016,400	3,472,000	3,472,000
4. Maintaining law and order	419,700	836,000	836,000
Total	43,114,995	50,700,000	50,720,000

It is the view of the committee that in administering the education program of the Bureau of Indian Affairs emphasis should be given to vocational training at the earliest possible age.

RESOURCES MANAGEMENT

Appropriation, 1956	[1] $12,432,000
Pending supplemental for pay costs	450,000
Adjusted total appropriation, 1956	[1] 12,882,000
Budget estimate, 1957	[2] 16,100,000
House allowance	[3] 16,000,000
Committee recommendation	[3] 16,200,000

[1] And the use of $200,000 from the "Revolving fund for loans" was authorized.
[2] And the use of $250,000 from the "Revolving fund for loans."
[3] And the use of $350,000 from the "Revolving fund for loans."

The committee recommends the allowance of an appropriation of $16,200,000 and, in addition, the use of $350,000 from the "Revolving fund for loans" for the management of resources under the jurisdiction of the Bureau of Indian Affairs.

The budget estimate has been approved, and the following increases recommended:

Soil and moisture conservation, $100,000.—The House approved this increase. Many thousand acres of Indian lands need attention under this program in order that these lands may become more productive.

Weed control, $100,000.—The committee recommends an increase of $100,000 for the control of noxious weeds on Indian lands. This increase is to provide funds for the control of noxious weeds on Indian

lands in areas where local weed-control programs are being undertaken. It has been brought to the attention of the committee that some of the local programs have been threatened as the result of the lack of weed control on Indian lands.

It is the view of the committee that the provision in leases of Indian lands should be strengthened to assure compliance with weed-control laws by the lessor of such lands.

CONSTRUCTION

Appropriation, 1956	$7,979,003
Budget estimate, 1957	7,500,000
House allowance	4,000,000
Committee recommendation	7,740,000

The committee recommends the allowance of $7,740,000 for the construction program of the Bureau of Indian Affairs. The amount recommended is an increase of $3,740,000 over the House allowance, and an increase of $240,000 over the budget estimate.

The construction program presented in the justifications is approved and an additional $240,000 is recommended for the construction of additional school facilities at Santo Domingo Pueblo, N. Mex.

The House committee approved the construction program presented in the justifications submitted in support of the budget estimate. However, the committee recommended only $4,000,000 for this program on the assumption that there would be "unobligated funds" available at the end of the current fiscal year that could be used to finance the projects in the 1957 program. The committee has been advised by the Department that there will be approximately $3,500,000 unobligated at the end of the current fiscal year, but all of this amount is allocated to projects approved by the Congress in the appropriation act for the current year, and previous years; and that the full amount will be required to continue construction of these approved projects. Therefore, the committee recommends the allowance of the budget estimate.

ROAD CONSTRUCTION AND MAINTENANCE (LIQUIDATION OF CONTRACT AUTHORIZATION)

Appropriation, 1956	$7,000,000
Budget estimate, 1957	11,500,000
House allowance	11,500,000
Committee recommendation	11,500,000

The committee recommends the allowance of the budget estimate of $11,500,000 for the liquidation of contract authority granted in the Federal-Aid Highway Act of 1954 for the construction and maintenance of Indian roads and trails.

Of the total amount available $2,220,000 will be required for the maintenance of the existing road system leaving the balance of $9,280,000 to meet contractors' earnings and other costs.

GENERAL ADMINISTRATIVE EXPENSES

Appropriation, 1956	$2,600,000
Pending supplemental for pay costs	150,000
Adjusted total appropriation, 1956	2,750,000
Budget estimate, 1957	3,190,000
House allowance	3,190,000
Committee recommendation	3,190,000

UNIVERSITY OF MICHIGAN LIBRARIES

The committee recommends the allowance of the budget estimate of $3,190,000 for general administrative expenses of the Bureau of Indian Affairs.

In addition to this appropriation other funds are made available for certain common service activities from other appropriations to the Bureau.

DISTRIBUTION OF FUNDS OF THE CREEK INDIANS

Budget estimate, 1957	$200,000
House allowance	200,000
Committee recommendation	200,000

The committee recommends the allowance of the budget estimate of $200,000 for the expenses necessary for the distribution of funds in the Treasury to the credit of the Creek Indians. This appropriation was authorized by the act of August 1, 1955 (69 Stat. 431).

The distribution of these funds will permit the Indians to derive some benefit from their money, and it will also stop the accrual of interest on money held by the Government to the credit of the Indians.

ADMINISTRATIVE PROVISIONS

The committee recommends the granting of authority to the Bureau of Indian Affairs to purchase 290 passenger vehicles, of which 270 shall be replacements. This is the number recommended by the Bureau of the Budget. The House approved the purchase of 270, of which 250 were to be replacements.

TRIBAL FUNDS

Appropriation, 1956	$3,300,000
Budget estimate, 1957	3,000,000
House allowance	3,000,000
Committee recommendation	3,000,000

The committee recommends the allowance of the budget estimate of $3,060,000 to be appropriated from the funds deposited in the Treasury to the credit of the various Indian tribes.

GEOLOGICAL SURVEY

SURVEYS, INVESTIGATIONS, AND RESEARCH

Appropriation, 1956	$26,635,000
Pending supplemental for pay costs	1,405,000
Adjusted total appropriation, 1956	28,040,000
Budget estimate, 1957	31,602,000
House allowance	31,602,000
Committee recommendation	31,602,000

The committee recommends the allowance of the budget estimate of $31,602,000 for surveys, investigations, and research by the Geological Survey.

Within the amount recommended there is $5,070,000 that is available only for the State cooperative water resources investigations program. The committee has been advised that this amount is sufficient to match the State contributions to this very important program.

Of the increase recommended over the appropriation for the current fiscal year, $1,895,000 is for implementing the President's national minerals policy.

The committee is pleased to learn that the proposal for the new Geological Survey building in the metropolitan area of Washington, D. C., has been submitted to the Public Works Committees of the Congress for approval under the terms of the Lease Purchase Act (Public Law 519, 83d Cong.). However, it has come to the committee's attention that complications have developed in the acquisition of the site for this building. Therefore, the committee recommends the inclusion of a provision in the bill to expedite the acquiring of the site.

Bureau of Mines

CONSERVATION AND DEVELOPMENT OF MINERAL RESOURCES

Appropriation, 1956	$14,093,000
Pending supplemental for pay costs	650,000
Adjusted total appropriation, 1956	14,743,000
Budget estimate, 1957	17,363,000
House allowance	15,363,000
Committee recommendation	17,363,000

The committee recommends the allowance of the budget estimate of $17,363,000 for the conservation and development program of the Bureau of Mines. This amount is an increase of $2,000,000 over the sum of $15,363,000 allowed by the House.

Of the House reduction of $2,000,000 a major portion—$1,200,500—was applied to the "shale-to-oil" research program. While it is true that tremendous progress has been made in this field in recent years, it is the view of the committee that the program has not advanced to the point where it would be in the interest of the Federal Government to curtail its activities in this field.

HEALTH AND SAFETY

Appropriation, 1956	$5,000,000
Pending supplemental for pay costs	305,000
Adjusted total appropriation, 1956	5,305,000
Budget estimate, 1957	5,304,300
House allowance	5,304,300
Committee recommendation	5,304,300

The committee recommends the allowance of the budget estimate of $5,304,300 for the health and safety activities of the Bureau of Mines.

The funds recommended are for the following purposes:

Investigation of accidents and rescue work	$898,000
Mine inspections and investigations	3,874,300
Explosives and explosions testing and research	532,000

GENERAL ADMINISTRATIVE EXPENSES

Appropriation, 1956	$970,000
Pending Supplemental for pay costs	60,000
Adjusted total appropriation, 1956	1,030,000
Budget estimate, 1957	1,030,000
House allowance	1,030,000
Committee recommendation	1,030,000

UNIVERSITY OF MICHIGAN LIBRARIES

The committee recommends the allowance of the budget estimate of $1,030,000 for the general administrative expenses of the Bureau of Mines.

These funds finance the operation of the Washington office and the five regional offices of the Bureau. In addition to this appropriation charges are made against other funds available to the Bureau for common services of this nature.

National Park Service

MANAGEMENT AND PROTECTION

Appropriation, 1956	$9,825,000
Pending supplemental for pay costs	618,000
Adjusted total appropriation, 1956	10,443,000
Budget estimate, 1957	11,480,000
House allowance	11,480,000
Committee recommendation	11,537,000

The committee recommends the allowance of $11,537,000 for the management and protection of areas under the jurisdiction of the National Park Service.

With the funds provided the National Park Service will administer the following new areas:

City of Refuge National Historical Park, T. H.
Devils Postpile National Monument, Calif.
Edison Laboratory National Monument, N. J.
Fort Caroline National Memorial, Fla.
Fort Union National Monument, N. Mex.
Virgin Islands National Historic Site, V. I.

The increase of $57,000 over the budget estimate is for the following activities:

1. Additional archeological investigations in Federal reservoir sites, $25,000; and
2. Archeological investigations in the Arkansas Post area, $32,000.

MAINTENANCE AND REHABILITATION OF PHYSICAL FACILITIES

Appropriation, 1956	$8,950,000
Pending supplemental for pay costs	144,000
Adjusted total appropriation, 1956	9,094,000
Budget estimate, 1957	10,158,000
House allowance	10,158,000
Committee recommendation	10,158,000

The committee recommends the allowance of the budget estimate of $10,158,000 for the maintenance and rehabilitation of facilities under the jurisdiction of the Park Service.

Of the total estimate, $4,503,900 is for the maintenance of roads and trails and the balance of $5,654,100 is for the maintenance and rehabilitation of buildings and utilities.

CONSTRUCTION

Appropriation, 1956	$5, 425, 000
Budget estimate, 1957	[1] 13, 550, 000
House allowance	15, 000, 000
Committee recommendation	15, 250, 000

[1] Includes $8,350,000 submitted in H. Doc. 326.

The committee recommends the allowance of $15,250,000 for the construction program of the Park Service, an increase of $250,000 over the House allowance.

The budget estimate of $13,550,000 includes $8,350,000 submitted in House Document No. 326 to initiate the long-range program of improvements in the areas administered by the National Park Service.

The committee approves the program presented in the justifications submitted in support of the budget estimates. In addition the following projects are to be included in the program:

Grand Canyon National Park, $250,000.—The committee recommends the inclusion of $250,000 for the construction of additional school facilities at the Grand Canyon National Park. The present facilities are not adequate for the present enrollment, especially in the high-school grades. The committee has been advised by officials of the State of Arizona and the local school district that the cost of operation and maintenance of the additional facilities will be assumed by the school district.

Cumberland Gap National Historical Park, $100,000.—The committee recommends the allowance of $100,000 for the construction of needed facilities at the Cumberland Gap national historical area.

Yellowstone National Park, $52,400.—The committee has been advised that an additional allowance of $52,400 will allow the Park Service to complete utilities that are needed to serve new facilities being costructed by a concessioner.

Rocky Mountain National Park, Hidden Valley area, $15,000.—The committee recommends the allowance of $15,000 for the construction of additional facilities at the Hidden Valley area in the Rocky Mountain National Park.

Badlands National Monument, $44,500.—The committee recommends an allowance of $44,500 for the construction of additional facilities in the Badlands National Monument in South Dakota.

Carlsbad Caverns National Park, $78,480.—In the appropriation act for 1955, $250,000 was provided for the construction of a public use building at the Carlsbad Caverns National Park. The committee has been advised that the Park Service has not been successful in obtaining a contract for the building within the sum specified. Therefore, the committee recommends an additional $78,400 in order that this building may be completed.

CONSTRUCTION (LIQUIDATION OF CONTRACT AUTHORIZATION) (ROADS AND TRAILS, AND PARKWAYS)

Appropriation, 1956	$19, 654, 300
Budget estimate, 1957	29, 800, 000
House allowance	29, 800, 000
Committee recommendation	29, 800, 000

UNIVERSITY OF MICHIGAN LIBRARIES

The committee recommends the allowance of the budget estimate of $29,800,000 for the liquidation of contract authority granted in the Federal-Aid Highway Act of 1954 for the construction of roads and trails and parkways.

The new contract authority for fiscal year 1957 is as follows:

Roads and trails	$12,500,000
Parkways	11,000,000
Total authorization	23,500,000

The following projects are to be included in the road-and-trails program for fiscal year 1957:

Cumberland Gap National Historical Park, additional roads and trails	$150,000
Vicksburg National Military Park, additional roads and trails	100,000
Badlands National Monument, additional roads and trails	35,000

JONES POINT BRIDGE

Appropriation, 1956	(1)
Budget estimate, 1957	$13,825,000
House allowance	None
Committee recommendation	None

[1] $500,000 pending in the 2d supplemental appropriation bill.

The committee recommends that the budget estimate of $13,825,000 for the construction of the Jones Point Bridge be disallowed. It is the view of the committee that the responsibility for the construction of this bridge should be transferred from the Secretary of the Interior to the Secretary of Commerce, and calls the attention of the Senate to the pending legislation (H. R. 7228) to accomplish this purpose.

It is the hope of the committee that the pending legislation will be enacted into law in the immediate future, at which time the committee will again consider this estimate, either in the Department of Commerce and related agencies appropriation bill, or the supplemental appropriation bill for 1957.

The action of the committee should not be considered as a disallowance of funds on the merits of the project, but rather a postponement of the allowance of funds until this matter of construction responsibility is definitely disposed of.

The Department of the Interior and Related Agencies Subcommittee recommended the allowance of the funds for the construction of the bridge, and is convinced that construction should proceed at an early date. The subcommittee will repeat its recommendation for the allowance of construction funds to any subcommittee that considers funds for this purpose.

GENERAL ADMINISTRATIVE EXPENSES

Appropriation, 1956	$1,175,000
Anticipated supplemental for pay costs	75,000
Adjusted total appropriation, 1956	1,250,000
Budget estimate, 1957	1,250,000
House allowance	1,250,000
Committee recommendation	1,250,000

The committee recommends the allowance of the budget estimate of $1,250,000 for the general administrative expenses of the National Park Service.

These funds finance the operation of the Washington office and the five regional offices of the Park Service.

ADMINISTRATIVE PROVISIONS

The committee recommends the inclusion of a provision to authorize the use of receipts to defray expenses of the operation of the Mount McKinley Park Hotel in the Mount McKinley National Park in Alaska.

It is estimated that the operation of the hotel will result in a net loss of $20,300, and this sum has been provided under the "Management and protection" appropriation.

The committee desires to make it clear that it recommends this type of operation for only 1 year. The Secretary is expected to make every effort to place this facility under a concession contract.

Fish and Wildlife Service

MANAGEMENT OF RESOURCES

Appropriation, 1956	$6,728,500
Pending supplemental for pay costs	280,000
Adjusted total appropriation, 1956	7,008,500
Budget estimate, 1957	9,696,000
House allowance	9,696,000
Committee recommendation	[1] 10,373,600

[1] And the use of $172,400 of available funds.

The committee recommends a total program of $10,546,000 to be financed as follows:

Appropriation	$10,373,600
Use of available funds	172,400
Total program	10,546,000

The program presented in the justifications submitted in support of the budget estimate is approved, and funds are provided for the following increases:

Propagation and distribution of food fishes, $100,000.—The committee recommends the allowance of $100,000 for expanded operation at existing fish hatcheries. In allocating these funds the Department should take into consideration those areas where the demand for fish is the greatest.

Control of predatory animals and injurious rodents, $750,000.—The budget includes $1,009,500 for this purpose. The House allowed $1,259,500, and the committee recommends the allowance of $1,759,500. This program is conducted under cooperative agreements with the Federal land-management agencies, the Public Health Service, State agencies, farm and livestock associations, and individuals. During the current year the contributions of the cooperative agencies, other than Federal agencies, amount to $3.20 for every Federal dollar in the program.

In view of the immensity of the problem involved and the increased interest and financial contributions of the cooperating agencies, it is the view of the committee that the increase recommended is fully justified. Over a period of years the cost of this program has greatly increased, while appropriations for this purpose have not increased accordingly.

To carry out the accelerated program 20 passenger vehicles will be required, and authority to purchase these has been granted.

INVESTIGATION OF RESOURCES

Appropriation, 1956	$4,917,000
Anticipated supplemental for pay costs	185,000
Adjusted total appropriation, 1956	5,102,000
Budget estimate, 1957	5,065,000
House allowance	5,065,000
Committee recommendation	5,105,000

UNIVERSITY OF MICHIGAN LIBRARIES

The committee recommends the allowance of $5,105,000 for the investigations program of the Fish and Wildlife Service.

The increase of $40,000 over the budget estimate is for Great Lakes fishery research to assure the operation of the research vessel *Cisco*. The committee has been advised that the actual operation of the facilities to control sea lampreys will be under the Great Lakes Fishery Commission that was created under the treaty with Canada on this matter. However, it is the view of the committee that a limited-research program should continue.

In addition to this appropriation, $3,000,000 will be available for research under the Saltonstall-Kennedy Act.

CONSTRUCTION

Appropriation, 1956	$1,750,000
Budget estimate, 1957	2,200,000
House allowance	2,200,000
Committee recommendation	2,471,000

The committee recommends the allowance $2,471,000 for the construction program of the Fish and Wildlife Service. The program presented in the budget justifications is approved and funds are recommended for the following increases:

Williams Creek (McNary), Ariz., fish hatchery, $108,000.—The budget estimate includes $20,000 to construct a new concrete raceway at this facility. The total cost for completing all raceways is $128,000. The committee recommends an increase of $108,000 in order that the raceways can be completed in the coming fiscal year.

Welaka, Fla., fish hatchery, $40,000.—The budget estimate includes $30,000 to improve the rearing ponds at this facility. The committee recommends an increase of $40,000 to complete the improvement and to install drainage facilities.

Marion, Ala., fish hatchery, $50,000.—The committee recommends the allowance of $50,000 to initiate the rehabilitation of the fish hatchery at Marion, Ala.

Creston, Mont., fish hatchery, $18,000.—The committee recommends the allowance of $18,000 for the construction of additional concrete raceways at the Creston, Mont., fish hatchery.

Gavins Point (Missouri River Basin), fish hatchery, $30,000.—The committee recommends the allowance of $30,000 for preliminary engineering, specifications and construction of access roads for a warm-water fish hatchery to meet the needs of the Federal reservoirs in the Missouri River Basin project.

Hagerman, Idaho fish hatchery, $25,000.—The committee recommends the allowance of $25,000 for the construction of additional concrete raceways at the Hagerman, Idaho, fish hatchery.

GENERAL ADMINISTRATIVE EXPENSES

Appropriation, 1956	$760,000
Pending Supplemental for pay costs	50,000
Adjusted total appropriation, 1956	810,000
Budget estimate, 1957	852,500
House allowance	852,500
Committee recommendation	852,500

The committee recommends the allowance of the budget estimate of $852,500 for the general administrative expenses of the Fish and Wildlife Service.

These funds finance the operation of the Washington headquarters and the regional offices. And in addition funds are available from permanent appropriations for this purpose.

ADMINISTRATIVE PROVISIONS

The committee recommends that authority be granted to allow the Fish and Wildlife Service to purchase 131 passenger vehicles, of which 97 shall be replacements. The number recommended is an increase of 20 over the number recommended by the budget, and are required to implement the increased program recommended for the control of predatory animals and injurious rodents.

Office of Territories

ADMINISTRATION OF TERRITORIES

Appropriation, 1956	$2,609,500
Budget estimate, 1957	2,803,000
House allowance	2,803,000
Committee recommendation	2,803,000

The committee recommends the allowance of the budget estimate of $2,803,000 for the administration of Territories. These funds provide for the departmental headquarters of the Office of Territories, and expenses in support of the governments of Alaska, Hawaii, the Virgin Islands, Guam, and American Samoa.

The increase of $193,500 is primarily for the expenses of the biennial Legislatures of Alaska and Hawaii, and increased cost for the care of the mentally ill in Alaska.

TRUST TERRITORY OF THE PACIFIC ISLANDS

Appropriation, 1956	$4,500,000
Funds made available from Island Trading Co. surplus	500,000
Adjusted total appropriation, 1956	5,000,000
Budget estimate, 1957	4,800,000
House allowance	4,800,000
Committee recommendation	4,800,000

The committee recommends the allowance of the budget estimate of $4,800,000 for the administration of the Trust Territory of the Pacific Islands.

Under the terms of the trusteeship agreement between the United States and the Security Council of the United Nations, the United States exercises full powers of administration, legislation, and jurisdiction over the Territory and has undertaken obligations to promote the political, economic, and educational advancement of the inhabitants.

ALASKA PUBLIC WORKS

Appropriation, 1956	$3,000,000
Budget estimate, 1957	5,000,000
House allowance	4,968,000
Committee recommendation	4,968,000

The committee recommends that the Senate concur in the House allowance of $4,968,000 for the Alaska public works program.

The following projects are approved for fiscal year 1957:

UNIVERSITY OF MICHIGAN LIBRARIES

Applicant and location	Type	Estimated cost
Petersburg, city of	Streets	$170,095
Territory of Alaska, Kenai	Multipurpose room	229,260
University of Alaska, college	100-woman dormitory	653,415
Ketchikan, city of	Arterial addition	750,865
Fairbanks Independent School District	High school auditorium, gym	1,015,670
Wrangell, town	Water main extensions	22,170
Anchorage, city of (Mountain View)	Sewer	423,420
Anchorage, city of (Knik Arm Outfall)	do	699,330
Valdez, city of	High school	478,775
Total construction		4,443,000
Administration		525,000
Total		4,968,000

CONSTRUCTION OF ROADS, ALASKA

Appropriation, 1956	$6,300,000
Budget estimate, 1957	7,800,000
House allowance	7,800,000
Committee recommendation	7,800,000

The committee recommends the allowance of the budget estimate of $7,800,000 for the construction of roads in Alaska.

The recommended appropriation is allocated to the following activities:

Activities	Estimate, 1957
1. Preparation of plans	$300,000
2. Construction in progress	6,700,000
3. Reconstruction	800,000
4. New construction	
Total	7,800,000

OPERATION AND MAINTENANCE OF ROADS, ALASKA

Appropriation, 1956	$3,500,000
Budget estimate, 1957	3,625,000
House allowance	3,625,000
Committee recommendation	3,625,000

The committee recommends the allowance of the budget estimate of $3,625,000 for the operation and maintenance of the Alaskan road system.

The Territory's highway system under the jurisdiction of the Alaska Road Commission totaled 3,543.5 miles as of June 30, 1955. The total cost of maintaining the road system during the current fiscal year was $3,910,000, of which $3,500,000 was provided by this appropriation and the balance is provided by the Territory.

CONSTRUCTION, ALASKA RAILROAD

Appropriation, 1956	$4,100,000
Budget estimate, 1957	None
House allowance	None
Committee recommendation	None

It has come to the attention of the committee that the Comptroller General has ruled that the Alaska Railroad is authorized by law to retain in the Alaska Railroad revolving fund all amounts received by it over and above amounts required for maintenance charges and operating expenses and to use such amounts for construction and improvement of the Railroad.

In view of this ruling, the language proposed by the Department authorizing the use of the revolving fund for such purposes is not required.

The committee feels, however, that in order to appropriately review the program of the Alaska Railroad it is essential that the annual budget submission reflect a schedule of amounts proposed for capital improvements. Accordingly, the Secretary of the Interior is requested to have appropriate schedules included in the budget annually which will disclose, by major items, the amounts proposed for capital improvements. The committee wishes to make it clear that no major capital improvement or rehabilitation is to be financed from revenues until it has been presented to and approved by the Appropriation Committees of the Congress.

For the fiscal year ending June 30, 1957, the committee approves the use of $3,358,000 from revenues of the railroad for the capital investment program presented to the committee.

Administration, Department of the Interior

SALARIES AND EXPENSES

Appropriation, 1956	$2,065,000
Anticipated supplemental for pay costs	100,000
Adjusted total appropriation, 1956	2,165,000
Budget estimate, 1957	2,222,000
House allowance	2,222,000
Committee recommendation	2,222,000

The committee recommends the allowance of $2,222,000 for the administration of the Department of the Interior. These funds finance the operation of the overall administration of the activities of the Department of the Interior.

General Provisions—Department of the Interior

The committee recommends that section 106, which imposes a limitation on the funds available for informational services, be stricken from the bill.

Some years ago this type of limitation was imposed on practically all of the executive departments of the Federal Government. However, at the present time such limitations are only in effect in the Department of Defense and the Department of the Interior.

TITLE II—RELATED AGENCIES

Commission of Fine Arts

Appropriation, 1956	$21,200
Anticipated supplemental for pay costs	1,000
Adjusted total appropriation, 1956	22,200
Budget estimate, 1957	31,000
House allowance	31,000
Committee recommendation	31,000

UNIVERSITY OF MICHIGAN LIBRARIES

The committee recommends the allowance of the budget estimate of $31,000 for the Commission on Fine Arts.

The committee feels that the present workload of the Commission fully justifies the increase recommended.

Federal Coal Mine Safety Board of Review

SALARIES AND EXPENSES

Appropriation, 1956	$70,000
Budget estimate, 1957	70,000
House allowance	70,000
Committee recommendation	70,000

The committee recommends the allowance of the budget estimate of $70,000 for the expenses of the Federal Coal Mine Safety Board of Review.

DEPARTMENT OF AGRICULTURE

Forest Service

SALARIES AND EXPENSES, NATIONAL FOREST PROTECTION AND MANAGEMENT

Appropriation, 1956	$35,811,500
Anticipated supplemental for pay costs	1,978,500
Adjusted total appropriation, 1956	37,790,000
Budget estimate, 1957	41,668,000
House allowance	41,668,000
Committee recommendation	46,063,500

The committee recommends an allowance of $46,063,500 for "Salaries and expenses, national forest protection management."

The program presented in the justifications submitted in support of the budget estimate is approved; and the committee recommends the following increases:

Range resource management, $500,000.—It has come to the committee's attention that there are 6,500 range-management units lacking inventories and management plans. This increase of $500,000 over the budget estimate of $1,110,400 will allow the Forest Service to set up a program to complete this work in 10 to 12 years. At the rate proposed in the budget it would take approximately 20 years to complete the project.

Wildlife resource management $270,000.—The budget estimate includes $230,000 for this activity. The committee recommends the allowance of $500,000—an increase of $270,000. This increase will strengthen this program, and is to be applied in the national forests throughout the Nation.

Soil and water management, $250,000.—The committee recommends the allowance of $600,000 for this activity, an increase of $250,000 over the budget estimate. This work involves the rehabilitation of badly eroded areas within the national forests. There are 2,025,000 acres that need attention under this program.

Sanitation and care of public campgrounds, $1,805,500.—The budget estimate includes $2,195,000 for the operation and development of the public use areas in the national forests. The committee recommends the allowance of $4 million, an increase of $1,805,500.

The committee has recommended funds to initiate a long-range program for the improvements of the national parks. It is the view of the committee that the Forest Service should present a program of this nature, and that funds to implement such a program should be submitted to the Bureau of the Budget for consideration in the budget for fiscal year 1958.

Forest fire protection, $450,000.—The committee recommends an increase of $450,000 to provide for additional fire protection on the national forest in southern California.

Reforestation, $620,000.—The budget estimate includes $1,130,000 for the reforestation of areas in the national forests. The committee recommends an increase of $620,000.

There is a backlog of 4,000,000 acres of national forest lands that need attention under this program. The committee was advised that no progress has been made toward decreasing this backlog because, "the present planting program is insufficient to show any progress on this backlog because the acreage burned, each year which requires planting, exceeds the area planted." The committee hopes that the budgets for fiscal year 1958 and following years will provide adequate funds to carry out a reforestation program commensurate with the needs for a sound management program.

Of the increase recommended $100,000 is for reforestation work in the Chippewa and Superior National Forests. In carrying out this work it is the recommendation of the committee that Indian labor be used.

Range revegetation, $500,000.—The budget estimate includes $715,000 for this activity. The committee recommends an increase of $500,000. The committee was advised that there is now a backlog of 3,500,000 acres of rangeland that need to be reseeded.

SALARIES AND EXPENSES, FIGHTING FOREST FIRES

Appropriation, 1956	$5, 250, 000
Budget estimate, 1957	5, 250, 000
House allowance	5, 250, 000
Committee recommendation	5, 250, 000

The committee recommends the allowance of the budget estimate of $5,250,000 for "Salaries and expenses, fighting forest fires."

SALARIES AND EXPENSES, CONTROL OF FOREST PESTS

Appropriation, 1956	$6, 272, 500
Pending supplemental for pay costs	30, 000
Adjusted total appropriation, 1956	6, 302, 500
Budget estimate, 1957	5, 120, 000
House allowance	5, 120, 000
Committee recommendation	5, 120, 000

The committee recommends the allowance of the budget estimate of $5,120,000 for "Salaries and expenses, control of forest pests."

The decrease below the appropriation for the current year is the result of the completion of major phases of the program for the control of the spruce budworm and the spruce bark beetle.

SALARIES AND EXPENSES, FOREST RESEARCH

Appropriation, 1956	$7, 754, 000
Anticipated supplemental for pay costs	455, 000
Adjusted total appropriation, 1956	8, 209, 000
Budget estimate, 1957	9, 350, 000
House allowance	9, 350, 000
Committee recommendation	10, 650, 000

The committee recommends an appropriation of $10,650,000 for "Salaries and expenses, forest research," an increase of $1,300,000 over the budget estimate.

Within the sum recommended $1,584,828—the budget estimate—is for the operation of the Forests Products Laboratory at Madison, Wis. The sum recommended for this purpose is an increase of $468,000 over the amount available for the current fiscal year, and $300,000 over the amount allowed by the House for fiscal year 1957.

UNIVERSITY OF MICHIGAN LIBRARIES

The program presented in the justifications in support of the budget estimate is approved, and the following increases are recommended:

Forest management research	$275,000
Forest protection research	25,000

These increases were recommended by the House. In addition the committee recommends an increase of $1 million to strengthen forestry research throughout the country.

The committee received numerous requests for funds for additional research projects and does not feel that it can allow all such requests. Therefore, the committee requests the Chief of the Forest Service to review the hearings of the committee and allocated funds from the increase recommended by the committee to those projects that he feels have merit, and will fit into the research program of the Forest Service.

ROADS AND TRAILS

Appropriation	$24,000,000
Budget estimate, 1957	24,000,000
House allowance	24,000,000
Committee recommendation	24,000,000

The committee recommends the allowance of the budget estimate of $24 million for the construction and maintenance of forest roads and trails.

The amount recommended is the full amount of the authorization.

ACQUISITION OF LANDS, WEEKS ACT

Appropriation, 1956	$190,000
Budget estimate, 1957	None
House allowance	None
Committee recommendation	100,000

The committee recommends the allowance of $100,000 for the acquisition of lands under the Weeks Act.

These funds are to be used to acquire scatter tracts of privately owned lands within the boundaries of National Forests that are presenting problems in the administration, management and protection of the National Forests.

ACQUISITION OF LANDS, SPECIAL ACTS

Appropriation, 1956	$10,000
Budget estimate, 1957	None
House allowance	None
Committee recommendation	10,000

The committee recommends the use of $10,000 of the receipts from the Cache National Forest for the acquisition of watershed lands within the forest under the terms of the act of May 11, 1938 (52 Stat. 347).

STATE AND PRIVATE FORESTRY COOPERATION

Appropriation, 1956	$11,337,129
Pending supplemental for increased pay costs	45,000
Adjusted total appropriation, 1956	11,382,129
Budget estimate	11,385,000
House allowance	11,385,000
Committee recommendation	15,165,000

The committee recommends an appropriation of $15,165,000 for the State and private forestry cooperation program of the National Forest Service. This is an increase of $3,780,000 over the budget estimate.

The committee was impressed with the presentation by the Association of State Foresters and at their requests recommend the following allowances:

Cooperation in forest-fire control	$13,000,000
Cooperation in forest tree planting	1,000,000
Cooperation in forest management and processing	1,000,000
General forestry assistance	165,000

In allocating the increases recommended by the committee adequate provision shall be made for any State that is not now participating in the programs.

In recommending increases for the cooperative programs the committee has taken into consideration the following problems that point out the lack of a sound management program on the State and private forestry lands—

1. There are 49,000,000 acres of State and private forest lands without any type of organized fire protection.
2. The present demand for tree seedlings now exceeds the supply in many States.
3. The lack of adequate technical personnel to advise the small woodland owner as to proper timber management practices. This program is carried on by the States through their farm foresters, and is the key to sound management of the small farm tracts.

COOPERATIVE RANGE IMPROVEMENTS

Appropriation, 1956	$700,000
Budget estimate, 1957	700,000
House allowance	700,000
Committee recommendation	700,000

The committee recommends the budget estimate of $700,000 for this appropriation. The funds are derived from grazing fees and are used for cooperative programs for protecting and improving the ranges.

WORKING CAPITAL FUND

The committee considered the request for the establishment of a working capital fund for the Forest Service. The committee recommends that this request be disallowed.

It is the view of the committee that this problem has to be considered on a governmentwide basis, rather than individual requests of various agencies.

INDIAN CLAIMS COMMISSION

SALARIES AND EXPENSES

Appropriation, 1956	$119,500
Anticipated supplemental for pay costs	1,700
Adjusted total appropriation, 1956	121,200
Budget estimate, 1957	124,600
House allowance	124,600
Committee recommendation	124,600

UNIVERSITY OF MICHIGAN LIBRARIES

The committee recommends that the Senate concur in the action of the House in the allowance of the budget estimate of the Indian Claims Commission.

JAMESTOWN-WILLIAMSBURG-YORKTOWN CELEBRATION COMMISSION

Appropriation, 1956	$100,000
Budget estimate, 1957	115,000
House allowance	115,000
Committee recommendation	115,000

The committee recommends the allowance of the budget estimate of $115,000 for the necessary expenses of the Jamestown-Williamsburg-Yorktown Celebration Commission.

NATIONAL CAPITAL PLANNING COMMISSION

SALARIES AND EXPENSES

Appropriation, 1956	$143,000
Anticipated supplemental for pay costs	6,700
Adjusted total appropriation, 1956	149,700
Budget estimate, 1957	210,000
House allowance	185,000
Committee recommendation	210,000

The committee recommends the allowance of the budget estimate of $210,000 for the salaries and expenses of the National Capital Planning Commission. This is an increase of $25,000 over the House allowance.

In view of the increased workload of the Commission the committee feels that the increase recommended is justified.

LAND ACQUISITION

Appropriation, 1956	$500,000
Budget estimate, 1957	1,500,000
House allowance	1,250,000
Committee recommendation	1,500,000

The committee recommends the allowance of the budget estimate of $1,500,000 for the acquisition of lands under the Capper-Cramton Act by the National Capital Planning Commission. The amount recommended is an increase of $250,000 over the House allowance.

The committee feels that the requests of the Commission were reasonable, and therefore recommends the allowance of the budget estimate.

SALARIES AND EXPENSES, WASHINGTON REGIONAL MASS TRANSPORTATION SURVEY

Budget estimate, 1957	$200,000
House allowance	200,000
Committee recommendation	200,000

The committee recommends that the Senate concur in the House action of allowing the budget estimate of $200,000 for the salaries and expenses of the Washington regional mass transportation survey.

The committee recommends the inclusion of a provision in the bill to allow the employment of one employee for a period in excess of 1 year as provided by the act of June 6, 1924, as amended.

Smithsonian Institution

SALARIES AND EXPENSES, SMITHSONIAN INSTITUTION

Appropriation, 1956	$4,000,000
Anticipated supplemental for pay costs	166,000
Adjusted total appropriation, 1956	4,166,000
Budget estimate, 1957	[1] 4,425,000
House allowance	4,400,000
Committee recommendation	4,425,000

[1] Includes $25,000 submitted in H. Doc. 343.

The committee recommends the allowance of the budget estimate of $4,425,000 for the salaries and expenses of the Smithsonian Institution.

The increase of $25,000 over the House allowance is the amount of the supplemental estimate submitted in House Document No. 343 to cover pay increases to wage-board employees.

SALARIES AND EXPENSES, NATIONAL GALLERY OF ART

Appropriation, 1956	$1,355,000
Anticipated supplemental for pay costs	81,000
Adjusted total appropriation, 1956	1,436,000
Budget estimate, 1957	[1] 1,505,000
House allowance	1,495,000
Committee recommendation	1,505,000

[1] Includes $10,000 submitted in H. Doc. 343.

The committee recommends the allowance of $1,505,000 for the salaries and expenses of the National Gallery of Art. The increase of $10,000 over the House allowance is the amount of the supplemental estimate submitted in House Document No. 343 to cover pay increases to wage-board employees.

MUSEUM OF HISTORY AND TECHNOLOGY (CONSTRUCTION)

Appropriation, 1956	$2,288,000
Budget estimate, 1957	33,712,000
House allowance	33,712,000
Restoration requested	----------
Committee recommendation	33,712,000

The committee recommends that the Senate concur in the action of the House in allowing the budget estimate of $33,712,000 for the construction of the new museum of history and technology.

The construction of this building was authorized by the act of June 28, 1955 (69 Stat. 189). The amount recommend will complete the building.

Franklin Delano Roosevelt Memorial Commission

Budget estimate, 1957	$10,000
House allowance	10,000
Committee recommendation	10,000

UNIVERSITY OF MICHIGAN LIBRARIES

The committee recommends the allowance of the budget estimate of $10,000 for the expenses of the Franklin Delano Roosevelt Memorial Commission.

This Commission was authorized by the act of August 11, 1955 (69 Stat. 694).

Woodrow Wilson Centennial Celebration Commission

Appropriation, 1956	$51,500
Budget estimate, 1957	[1] 48,500
House allowance	None
Committee recommendation	48,500

[1] Submitted in S. Doc. No. 108.

The committee recommends the allowance of the budget estimate of $48,500 for the necessary expenses of the Woodrow Wilson Centennial Celebration Commission.

House Joint Resolution 443, recently passed by both Houses of Congress, provided an increased authorization for this Commission.

TITLE III—VIRGIN ISLANDS CORPORATION

Grants

Appropriation, 1956	$390,000
Budget estimate, 1957	425,000
House allowance	425,000
Committee recommendation	425,000

The committee recommends that the Senate concur in the action of the House in the allowance of the budget estimate of $425,000 for grants to the Virgin Islands Corporation.

These funds are necessary to cover losses of the Corporation, and to continue land development work carried on by the Corporation.

Administrative Expenses

Appropriation, 1956	[1] $160,000
Budget estimate, 1957	[1] 160,000
Restoration requested	[1] 160,000
Committee recommendation	[1] 160,000

[1] Authorization to use corporate funds.

The committee recommends the approval of authority for the Virgin Islands Corporation to use $160,000 of corporate funds for administrative expenses.

UNIVERSITY OF MICHIGAN LIBRARIES

COMPARATIVE STATEMENT OF THE APPROPRIATIONS FOR 1956 AND THE ESTIMATES FOR 1957

PERMANENT AND INDEFINITE APPROPRIATIONS

	Appropriation estimate, 1956	Appropriation estimate, 1957	Increase (+) or decrease (−)
Department of the Interior:			
Range improvements	$525,587	$664,750	+$139,163
Payments to States (proceeds of sales)	134,002	245,700	+111,698
Payment of royalties to Oklahoma	7,305	7,500	+195
Leasing of grazing lands	3,000	3,000	----------
Payments to States (grazing fees)	500	500	----------
Coos Bay Wagon Road grant lands, payment to Coos and Douglas Counties, Oreg., in lieu of taxes	43,227	50,000	+6,773
Oregon and California grant lands, payments to counties	9,000,380	8,755,000	−245,380
Payments to States from grazing receipts, public lands	356,900	364,800	+7,900
Mineral Leasing Act, payments to States	25,125,000	26,917,000	+1,792,000
Alaska school lands, payment to Alaska	1,500	1,500	----------
Expenses, sale of timber, etc., on reclamation land	2,000	2,000	----------
Claim and treaty obligations, Indian Affairs	140,500	140,500	----------
Operation and maintenance, revenues, Indian irrigation systems	2,199,000	2,296,000	+97,000
Power revenues, Indian irrigation projects	1,400,000	1,437,000	+37,000
Acquisition of lands and loans to Indians in Oklahoma, act of June 26, 1936	10,000	10,000	----------
Indian arts and crafts fund	200	200	----------
Payments from proceeds of sale of water, Geological Survey	600	600	----------
Educational expenses, children of employees, Yellowstone National Park	30,479	32,000	+1,521
Operation, management, maintenance, and demolition of federally acquired properties, Independence National Historical Park, National Park Service	150,000	100,000	−50,000
Payment to the State of Wyoming, in lieu of taxes on lands in Grand Teton National Park, National Park Service	26,186	26,470	+284

Purchase of Great Onyx and Crystal Cave properties, Mammoth Cave National Park, National Park Service	10,000	20,000	+10,000
Migratory bird conservation fund	4,300,000	4,300,000	----------
Federal aid in wildlife restoration	12,400,508	13,000,000	+599,492
Federal aid in fish restoration and management	5,347,425	5,300,000	−47,425
Management of national wildlife refuges	1,641,459	1,650,000	+8,541
Management of resources, Fish and Wildlife Service	762,147	1,075,000	+312,853
Administration of Pribilof Islands	1,829,152	2,580,000	+750,848
Expenses incident to sale of refuge products	40,000	40,000	----------
Payments to counties under Migratory Bird Conservation Act	547,170	550,000	+2,830
Internal revenue collections for Virgin Islands, Office of Territories	4,354,336	2,500,000	−1,854,336
Total, Department of the Interior	70,388,563	72,069,520	+1,680,957
Department of Agriculture—Forest Service:			
Expenses, brush disposal	4,300,000	4,500,000	+200,000
Roads and trails for States, national forest funds	7,753,900	10,418,500	+2,664,600
Forest-fire prevention (smokey bear)	30,000	30,000	----------
Payment to Minnesota from the national forests fund	46,200	46,400	+200
Payments due counties, submarginal land	375,000	375,000	----------
Payments to school funds, Arizona and New Mexico	114,300	115,000	+700
Payments to States and Territories from national forests fund	19,381,200	26,042,300	+6,661,100
Total, Department of Agriculture—Forest Service	32,000,600	41,527,200	+9,526,600
Total, permanent indefinite appropriations	102,389,163	113,596,720	+11,207,557

UNIVERSITY OF MICHIGAN LIBRARIES

Comparative statement of the appropriations for 1956 and the estimates for 1957—Continued

TRUST FUNDS

[Not a charge against revenue]

	Appropriation estimate, 1956	Appropriation estimate, 1957	Increase (+) or decrease (−)
Department of the Interior:			
Deposits by individuals for surveying public lands	$17,000	$17,000	
Administration and protection of grazing districts	200,000	200,000	
Trustee funds, Alaska townsites, Bureau of Land Management	3,400	3,400	
Indian moneys, proceeds of labor	3,811,000	3,575,000	−$236,000
Miscellaneous trust funds of Indian tribes	35,000,000	35,000,000	
Advances, authorized services, Geological Survey	800,000	800,000	
Contributed funds, Bureau of Mines	810,030	300,000	−510,030
Donations, including land, national parks	603,000	510,000	−93,000
Gifts or bequests of personal property, national parks	2,961	2,461	−500
Birthplace of Abraham Lincoln, preservation of national parks	1,585	1,585	
Miscellaneous contributed funds, Fish and Wildlife Service	90,000	90,000	
Improvement of roads, bridges, and trials, Alaska	1,000,000	1,000,000	
Total, trust funds, Department of the Interior	42,338,976	41,499,446	−839,530
Department of Agriculture—Forest Service:			
Cooperative work	12,500,000	13,000,000	+500,000
Miscellaneous contributed funds	40,000		−40,000
Total, trust funds, Forest Service	12,540,000	13,000,000	+460,000
National Capital Planning Commission contributed fund	438,000	502,000	+64,000
Smithsonian Institution: Canal Zone Biological Area Fund	10,000	10,000	
Total, trust funds	55,326,976	55,011,446	−315,530

COMPARATIVE STATEMENT OF APPROPRIATIONS FOR 1956, ESTIMATES FOR 1957, AND AMOUNTS RECOMMENDED IN THE BILL FOR 1957

Agency and item	Appropriation, fiscal year 1956 (including pending supplemental for increased pay costs	Budget estimate, fiscal year 1957	House allowance	Committee recommendation	Increase (+) or decrease (−), Senate bill compared with—		
					Appropriation, fiscal year 1956	Budget estimates, fiscal year 1957	House allowance
TITLE I—DEPARTMENT OF THE INTERIOR							
OFFICE OF THE SECRETARY							
Research in utilization of saline water	$400,000	$600,000	$550,000	$550,000	+$150,000	−$50,000	
Office of Oil and Gas Division	[1] 405,600	413,800	413,800	413,800	+8,200		
Office of the Solicitor	[2] 2,690,000	2,817,000	2,800,000	2,835,000	+145,000	+18,000	+$35,000
Office of Minerals Mobilization	225,000	308,000	300,000	225,000		−83,000	−75,000
Total, Office of the Secretary	3,720,600	4,138,800	4,063,800	4,023,800	+303,200	−115,000	−40,000
BUREAU OF LAND MANAGEMENT							
Management of lands and resources	[3] 14,281,700	[3A] 18,738,600	18,000,000	18,738,600	+4,456,900		+738,600
Construction	2,300,000	4,500,000	4,500,000	4,500,000	+2,200,000		
Range improvements [4]	*525,587*	*664,750*	*664,750*	*664,750*	*+139,163*		
Total, Bureau of Land Management	16,581,700	[3A] 23,238,600	22,500,000	23,238,600	+6,656,900		+738,600
BUREAU OF INDIAN AFFAIRS							
Education and welfare services	[5] 43,114,995	50,700,000	50,700,000	50,720,000	+7,605,005	+20,000	+20,000
Resources management	[6] 12,882,000	16,100,000	16,000,000	16,200,000	+3,318,000	+100,000	+200,000

[1] Includes $15,600 for increased pay costs pending in the second supplemental appropriation bill, 1956.
[2] Includes $165,000 for increased pay costs pending in the second supplemental appropriation bill, 1956.
[3] Includes $581,700 for increased pay costs pending in the second supplemental appropriation bill, 1956.
[3A] Excludes $39,400 transferred to the Department of Agriculture.
[4] Indefinite appropriation of receipts. Not included in the totals of this tabulation.
[5] Includes $1,350,000 for increased pay costs pending in the second supplemental appropriation bill, 1956.
[6] Includes $450,000 for increased pay costs pending in the second supplemental appropriation bill, 1956.

UNIVERSITY OF MICHIGAN LIBRARIES

Comparative statement of appropriations for 1956, estimates for 1957, and amounts recommended in the bill for 1957—Con.

Agency and item	Appropriation, fiscal year 1956 (including pending supplemental for increased pay costs	Budget estimate, fiscal year 1957	House allowance	Committee recommendation	Increase (+) or decrease (−), Senate bill compared with—		
					Appropriation, fiscal year 1956	Budget estimates, fiscal year 1957	House allowance
TITLE I—DEPARTMENT OF THE INTERIOR—Continued							
BUREAU OF INDIAN AFFAIRS—continued							
Construction	$7,979,003	$7,500,000	$4,000,000	$7,740,000	−$239,003	+$240,000	+$3,740,000
Road construction and maintenance (liquidation of contract authorization)	7,000,000	11,500,000	11,500,000	11,500,000	+4,500,000		
General administrative expenses	[7] 2,750,000	3,190,000	3,190,000	3,190,000	+440,000		
Distribution of funds of the Creek Indians		200,000	200,000	200,000	+200,000		
Relocation of the Yankton Sioux Tribe	56,500				−56,500		
Payment to Cheyenne River Sioux Tribe of Indians	5,160,000				−5,160,000		
Total, Bureau of Indian Affairs, exclusive of tribal funds	78,942,498	89,190,000	85,590,000	89,550,000	+10,607,502	+360,000	+3,960,000
Tribal funds [8]	*3,300,000*	*3,000,000*	*3,000,000*	*3,000,000*	*−300,000*		
GEOLOGICAL SURVEY							
Surveys, investigations, and research	[9] 28,040,000	31,602,000	31,602,000	31,602,000	+3,562,000		
BUREAU OF MINES							
Conservation and development of mineral resources	[10] 14,743,000	17,363,000	15,363,000	17,363,000	+2,620,000		+2,000,000
Health and safety	[11] 5,305,000	5,304,300	5,304,300	5,304,300	−700		
General administrative expenses	[12] 1,030,000	1,030,000	1,030,000	1,030,000			
Drainage of anthracite mines	8,500,000				−8,500,000		
Total, Bureau of Mines	29,578,000	23,697,300	21,697,300	23,697,300	−5,880,700		+2,000,000

NATIONAL PARK SERVICE							
Management and protection	[10] 10,443,000	11,480,000	11,480,000	11,537,000	+1,094,000	+57,000	+57,000
Maintenance and rehabilitation of physical facilities	[11] 9,094,000	10,158,000	10,158,000	10,158,000	+1,064,000		
Construction	5,425,000	[12] 13,550,000	15,000,000	15,250,000	+9,825,000	+1,700,000	+250,000
Construction (liquidation of contract authorization)	19,654,300	29,800,000	29,800,000	29,800,000	+10,145,700		
Jones Point Bridge		13,825,000				−13,825,000	
General administrative expenses	[13] 1,250,000	1,250,000	1,250,000	1,250,000			
Total, National Park Service	45,866,300	80,063,000	67,688,000	67,995,000	+22,128,700	−12,068,000	+307,000
FISH AND WILDLIFE SERVICE							
Management of resources	[17] 7,008,500	9,696,000	9,696,000	10,373,600	+3,365,100	+677,600	+677,600
Investigations of resources	[18] 5,102,000	5,065,000	5,065,000	5,105,000	+3,000	+40,000	+40,000
Construction	1,750,000	2,200,000	2,200,000	2,471,000	+721,000	+271,000	+271,000
General administrative expenses	[19] 810,000	852,500	852,500	852,500	+42,500		
Administration of Pribilof Islands [20]	*1,889,152*	*2,580,000*	*2,580,000*	*2,580,000*	*+750,848*		
Total, Fish and Wildlife Service	14,670,500	17,813,500	17,813,500	18,802,100	+4,131,600	+988,600	+988,600
OFFICE OF TERRITORIES							
Administration of Territories	2,609,500	2,803,000	2,803,000	2,803,000	+193,500		
Trust Territory of the Pacific Islands	4,500,000	4,800,000	4,800,000	4,800,000	+300,000		
Alaska public works	3,000,000	5,000,000	4,968,000	4,968,000	+1,968,000	−32,000	

[7] Includes $750,000 for increased pay costs pending in the second supplemental appropriation bill, 1956.
[8] Appropriation of Indian tribal funds deposited in the Treasury. Not included in the totals of this tabulation.
[9] Includes $1,405,000 for increased pay costs pending in the second supplemental appropriation bill, 1956.
[10] Includes $650,000 for increased pay costs pending in the second supplemental appropriation bill, 1956.
[11] Includes $305,000 for increased pay costs pending in the second supplemental appropriation bill, 1956.
[12] Includes $60,000 for increased pay costs pending in the second supplemental appropriation bill, 1956.
[13] Includes $618,000 for increased pay costs pending in the second supplemental appropriation bill, 1956.
[14] Includes $144,000 for increased pay costs pending in the second supplemental appropriation bill, 1956.
[15] Includes $8,350,000 submitted in H. Doc. No. 326.
[16] Includes $75,000 for increased pay costs pending in the second supplemental appropriation bill, 1956.
[17] Includes $280,000 for increased pay costs pending in the second supplemental appropriation bill, 1956.
[18] Includes $185,000 for increased pay costs pending in the second supplemental appropriation bill, 1956.
[19] Includes $50,000 for increased pay costs pending in the second supplemental appropriation bill, 1956.
[20] Indefinite appropriation of receipts. Not included in the totals of this tabulation.

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Comparative statement of appropriations for 1956, estimates for 1957, and amounts recommended in the bill for 1957—Con.

Agency and item	Appropriation, fiscal year 1956 (including pending supplemental for increased pay costs	Budget estimate, fiscal year 1957	House allowance	Committee recommendation	Increase (+) or decrease (−), Senate bill compared with—		
					Appropriation, fiscal year 1956	Budget estimates, fiscal year 1957	House allowance
TITLE I—DEPARTMENT OF THE INTERIOR—Continued							
OFFICE OF TERRITORIES—continued							
Construction of roads, Alaska	$6,300,000	$7,800,000	$7,800,000	$7,800,000	+$1,500,000		
Operation and maintenance of roads, Alaska	3,500,000	3,625,000	3,625,000	3,625,000	+125,000		
Construction, Alaska Railroad	4,100,000				−4,100,000		
Total, Office of Territories	24,009,500	24,028,000	23,996,000	23,996,000	−13,500	−$32,000	
ADMINISTRATION, DEPARTMENT OF THE INTERIOR							
Salaries and expenses	[21] 2,165,000	2,222,000	2,222,000	2,222,000	+57,000		
Total, Department of the Interior	243,574,098	295,993,200	277,172,600	285,726,800	+41,552,702	−10,866,400	+7,954,200
TITLE II—RELATED AGENCIES							
Commission of Fine Arts	[22] 22,200	31,000	31,000	31,000	+8,800		
Federal Coal Mine Safety Board of Review	70,000	70,000	70,000	70,000			
Forest Service, Department of Agriculture:							
Salaries and expenses:							
National forest protection and management	[23] 37,790,000	41,668,000	41,668,000	46,063,500	+8,273,500	+4,395,500	+4,395,500
Fighting forest fires	5,250,000	5,250,000	5,250,000	5,250,000			
Control of forest pests	[24] 6,302,500	5,120,000	5,120,000	5,120,000	−1,182,500		
Forest research	[25] 8,209,000	9,350,000	9,350,000	10,650,000	+2,441,000	+1,300,000	+1,300,000
Total, salaries and expenses	57,551,500	61,388,000	61,388,000	+67,083,500	+9,532,000	+5,695,500	+5,695,500
Roads and trails	24,000,000	24,000,000	24,000,000	24,000,000			

Acquisition of lands for national forests:							
Weeks Act	190,000			100,000	−90,000	+100,000	+100,000
Special acts[26]	[27] *10,000*			*10,000*		*+10,000*	*+10,000*
State and private forestry cooperation	11,382,129	11,385,000	11,385,000	15,165,000	+3,782,871	+3,780,000	+3,780,000
Cooperative range improvements (special account)[28]	*700,000*	*700,000*	*700,000*	*700,000*			
Total, Forest Service	93,123,629	96,773,000	96,773,000	106,348,500	+13,224,871	+9,575,500	+9,575,500
Indian Claims Commission	[29] 121,200	124,600	124,600	124,600	+3,400		
Jamestown-Williamsburg-Yorktown Celebration Commission	100,000	115,000	115,000	115,000	+15,000		
National Capital Planning Commission:							
Salaries and expenses	[30] 149,700	210,000	185,000	210,000	+60,300		+25,000
Land acquisition	500,000	1,500,000	1,250,000	1,500,000	+1,000,000		+250,000
Salaries and expenses, Washington regional mass transportation survey		200,000	200,000	200,000	+200,000		
Total, National Capital Planning Commission	649,700	1,910,000	1,635,000	1,910,000	+1,260,300		+275,000
Smithsonian Institution:							
Salaries and expenses, Smithsonian Institution	[30] 4,166,000	[31] 4,425,000	4,400,000	4,425,000	+259,000		+25,000
Salaries and expenses, National Gallery of Art	[32] 1,436,000	[33] 1,505,000	1,495,000	1,505,000	+69,000		+10,000
Museum of History and Technology	2,288,000	33,712,000	33,712,000	33,712,000	+31,424,000		
Total, Smithsonian Institution	7,890,000	39,642,000	39,607,000	39,642,000	+31,752,000		+35,000
Franklin Delano Roosevelt Memorial Commission		10,000	10,000	10,000	+10,000		

[21] Includes $100,000 for increased pay costs pending in the second supplemental appropriation bill, 1956.
[22] Includes $1,000 for increased pay costs pending in the second supplemental appropriation bill, 1956.
[23] Includes $1,978,500 for increased pay costs pending in the second supplemental appropriation bill, 1956.
[24] Includes $30,000 for increased pay costs pending in the second supplemental appropriation bill, 1956.
[25] Includes $450,000 for increased pay costs pending in the second supplemental appropriation bill, 1956.
[26] Appropriation of receipts. Not included in the totals of this tabulation.
[27] Includes $45,000 for increased pay costs pending in the second supplemental appropriation bill, 1956.
[28] Includes $1,200 for increased pay costs pending in the second supplemental appropriation bill, 1956.
[29] Includes $2,900 for increased pay costs pending in the second supplemental appropriation bill, 1956.
[30] Includes $166,000 for increased pay costs pending in the second supplemental appropriation bill, 1956.
[31] Includes $25,000 submitted in H. Doc. No. 343.
[32] Includes $81,000 for increased pay costs pending in the second supplemental appropriation bill, 1596.
[33] Includes $10,000 submitted in H. Doc. No. 343.

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					Appropriation, fiscal year 1956	Budget estimates, fiscal year 1957	House allowance
TITLE II—RELATED AGENCIES—Continued							
Woodrow Wilson Centennial Celebration Commission	$51,500	[34] $48,500		$48,500	−$3,000		+$48,500
John Marshall Bicentennial Celebration Commission	82,500				−82,500		
Theodore Roosevelt Centennial Commission	10,000				−10,000		
Alexander Hamilton Bicentennial Commission	120,000				−120,000		
Boston National Historic Sites Commission	40,000				−40,000		
Total, related agencies	102,280,729	138,724,100	$138,365,600	148,299,600	+46,018,871	+$9,575,500	+9,934,000
TITLE III—VIRGIN ISLANDS CORPORATION							
Grants	390,000	425,000	425,000	425,000	+35,000		
Administrative expenses [35]	*160,000*	*160,000*	*160,000*	*160,000*			
Grand total, titles I, II, and III	[36] 346,244,827	435,142,300	415,963,200	433,851,400	+87,606,573	−1,290,900	+17,888,200

[34] Submitted in S. Doc. No. 108.
[35] Corporate funds. Not included in the totals of this tabulation.
[36] Includes $9,349,000 for increased pay costs pending in the second supplemental appropriation bill, 1956.

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